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Government
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**FOREIGN OWNERSHIP:
CORPORATE BEHAVIOUR AND PUBLIC ATTITUDES
OVERVIEW REPORT**



Prepared for the
SELECT COMMITTEE ON ECONOMIC AND CULTURAL NATIONALISM
of the
LEGISLATIVE ASSEMBLY
PROVINCE OF ONTARIO

by
KATES, PEAT, MARWICK & CO.
February, 1974

PUBLISHED BY
THE SELECT COMMITTEE ON ECONOMIC
AND CULTURAL NATIONALISM
OF THE LEGISLATIVE ASSEMBLY OF ONTARIO

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The views expressed in this report are those of the
Kates, Peat, Marwick & Company Study Team, and are not necessarily
those of the Select Committee.

.....

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February 1, 1974

Mr. Russell D. Rowe, MPP
Chairman
Select Committee on Economic
and Cultural Nationalism
Room 104
Parliament Buildings
Queen's Park
Toronto, Ontario

Dear Mr. Rowe:

Foreign Ownership: Corporate Behaviour
and Public Attitudes

We submit herewith the ninth and last volume of the above study. This Overview Report summarizes the findings of the other eight volumes of the study, and draws together, generalizes and comments upon these findings.

The report is presented in four sections, as follows:

Section I describes the context within which the study was carried out in terms of previous studies, policy suggestions which have been made by a variety of observers, and interactions of foreign ownership issues with other major policy issues and national strategy areas. Section I also outlines the aims of the Select Committee on Economic and Cultural Nationalism in initiating this study and the nature and scope of the KPM&Co. study.

Section II presents a summary of the six industry sub-studies (Advertising, Architecture and Engineering Consulting, Automotive Parts, Electronics, Forest-based Industries, and Mining) in terms of existing and potential behaviour of firms in the industries, opinions of management and others familiar with the industries, and discussions of possible government policies which arose from

each of the sub-studies. More details on the six industry sub-studies are, of course, presented in the six companion volumes describing these sub-studies.

Section III summarizes the results of attitude surveys carried out for employees of the firms studied in each industry sub-study and attitudes of community leaders and the public at large in four small Ontario communities; further details on these surveys are presented in the other two companion volumes of this study. Opinions of other industry, government, union, professional and academic leaders are also presented in Section III.

Section IV draws together the findings of the sub-studies and surveys, and presents some commentary by the authors of this report on the implications of these findings.

Owing to the large amount of material presented in this report, this letter attempts to summarize briefly some of the more important findings and generalizations which we believe can be made based upon the study. The reader is directed to Section IV, Overview and Commentary, for more discussion of the findings, and to earlier sections of the report, and to the other eight volumes of the study, for more detailed findings.

BEHAVIOUR OF INDIVIDUAL COMPANIES

Behavioural differences of individual firms within the six industries studied, as documented in the industry studies and Section II of this report, show some differences and many similarities between the Canadian- and foreign-controlled firms studied in each industry. This is illustrated as follows:

1. Advertising. Among the differences between foreign- and Canadian-controlled agencies are: larger average size of account and concentration in package goods and in the television medium, by foreign-controlled agencies; their possibly somewhat less strong

identification with the community; and a greater proportion of their clients being foreign-controlled. Fundamentally, both sets of agencies have similar operating practices; foreign-controlled agencies do not import more advertising material than do their Canadian-controlled counterparts for equivalent clients and products, although they do tend to import more in absolute terms, because of the nature of their clients and products.

2. Engineering Consultants. Foreign-controlled firms are more heavily concentrated in construction management and turnkey operations, and specialize more in certain resource development areas; they appear to operate fairly autonomously with respect to their parent organizations and, with the exception of certain key specializations, undertake most of the engineering work in Canada, while importing more engineering drawings and products than do Canadian-controlled firms.
3. Auto Parts. Foreign-controlled firms rely somewhat more on parent R & D activities, have in some instances little local autonomy, and possibly (but not proven) have to account more for U.S. national interests. In most business respects in domestic and export markets their behaviour differs little from Canadian-controlled firms.
4. Electronics. Canadian- and foreign-controlled firms in the electronics industry tend to show similar behaviour in similar product lines, although even when segregated by the product line, some foreign-owned firms are more likely to import components and sub assemblies. Foreign-controlled firms also appear to be somewhat more truncated in terms of R & D, corporate planning, and management autonomy, although this is not always the case.
5. Forest-Based Industries. There is little or no difference between foreign- and Canadian-controlled firms in pollution abatement, labour relations, tendency to import, support for local community, and in research and development; foreign-controlled firms are sometimes publisher-owned, and to this extent tend to have more of a guaranteed market, operating at consistently higher production levels (relative to capacity) than do their Canadian-controlled competitors; tissue manufacturers, which are all foreign-owned, are generally more truncated than other firms in the industry.
6. Mining. There is little or no difference noted between foreign- and Canadian-controlled corporations re pollution abatement, R & D, labour relations, domestic and export markets, imports, local community support; some truncation symptoms in terms of management autonomy, location of

fabricating facilities, purchases of mine machinery, and hiring of technical services outside of Canada were noted among some foreign-controlled firms; Canada's mine machinery industry was found to be very small relative to our mining output, in comparison with that of the United States.

Product and customer differences between Canadian- and foreign-controlled firms in the six industries are described further in Sections II and IV of the report.

Some of the differences noted above are significant, in our opinion, and the Committee will probably consider the possibility of government action, or at least monitoring, regarding such development. It is also clear, however, that the differences in existing behaviour are not particularly startling, when viewed at the level of the individual company. These findings, again, were generally corroborated by the public and employee attitude surveys which indicated equal levels of job satisfaction among employees of Canadian- and foreign-controlled firms and the feeling among those living in small urban centres that both types of firms are equally good corporate citizens.

CUMULATIVE IMPACT OF FOREIGN OWNERSHIP

It was an important part of this study to assess not only the behaviour of individual firms in terms of foreign ownership, but also the broader impact that significant levels of foreign ownership appear to have on our economy and society. Certain such impacts, related to the differences in individual company behaviour noted above, the overall structure of Canadian industry, and public attitudes, are summarized briefly below:

1. General Differences in Behaviour and Product Lines: Stemming from the differences in individual behaviour noted above, there are general differences between foreign-owned and Canadian-owned firms in the industries studied regarding imports of components, machinery and services, management autonomy (particularly for key investments, critical labour negotiations and hiring of senior management), and forward integration; also, as summarized in Exhibit 35, page 208, there are significant differences in product lines in several of the industries, such that companies producing higher value products tend to be more heavily foreign-owned.
2. Concentration in Large Corporations: Two-thirds of manufacturing firms with \$25 million or more in assets are foreign owned (measured in terms of assets) and foreign ownership of firm assets in this category appears to be growing about twice as fast as Canadian ownership (see Exhibit 2, page 3); greater financial, market and entrepreneurial/technological strengths are attributed to foreign-owned firms by many of those interviewed; this high level of foreign ownership among our largest and most visible corporations has a measurable impact on the attitudes of managers, employees and the public in Ontario, as noted below.
3. Foreign-ownership Trends: The general growth trends of foreign ownership among larger corporations in Canada are paralleled by growth trends, identified during this study, in advertising agencies, electronics, pulp and paper, and possibly large engineering consulting firms in resource development fields.
4. Effects on Innovation and Expansion of Smaller Firms: Stemming from Items 1 and 2 above, Canadian-owned firms providing industrial materials, components and services tend to be at a disadvantage relative to foreign suppliers; these disadvantages, often felt in particular by small and medium sized Canadian-owned firms, may inhibit their ability and desire to innovate and/or expand, and increase the likelihood of their selling out to the highest bidder when a crucial size is reached; highest bidders are often foreign (usually American) because they tend to have more cash and can often realize greater returns by fitting the acquired firm into an existing network of companies.
5. Effects on the Structure of Canadian Industry: Observed effects on the overall structure of Canadian industry, as identified in part by this study and by Science Council and OECD reports referenced in this study, include:

- high foreign ownership of large end product manufacturing firms in Canada, particularly those in high technology, high value items
- a relative dearth of firms supplying industrial materials, components and services, particularly in high technology fields
- a tendency for such firms to be acquired by foreign interests when a critical size is reached, sometimes related to lack of financial resources available to the Canadian owners for further expansion
- fragmentation of the market among too many producers of manufactured products (particularly consumer products) in Canada owing to the presence of a large number of "miniature replica" and "branch plant" operations, aiming at the Canadian market only in many cases, with production runs which are consequently not long enough to achieve low unit costs
- a strongly negative balance of trade in end-products (which has grown from a deficit of \$2.6 billion in 1964 to a deficit of \$3.6 billion in 1971 in spite of the Auto Pact), financed by increasing exports of crude and fabricated products.
- an industrial complex which is therefore relatively weak in fields such as machinery, scientific instruments, electronics, chemical products and computers, and which provides fewer jobs per capita, particularly highly skilled jobs, than do the industrial complexes of most other OECD countries
- it seems evident that there are several major and inter-related causes for this situation, including Canada's abundance of raw materials, our proximity to the large markets and capital wealth of the U.S., and the tariff, competition and tax policies which we have historically adopted; nevertheless, the evidence of this study indicates that the high level of foreign ownership among Canada's largest and most technologically advanced manufacturing corporation also contributes significantly to the relatively slow growth and lack of depth and diversity of our manufacturing industry; this conclusion is based on the observed behavioural differences in importing, exporting, innovative activities, linkages with other firms in Canada and abroad, and management autonomy, between foreign- and Canadian-owned firms, and on the related findings of this and other studies.

6. Effects on National Self-Confidence and Initiative: Management and public interviews demonstrated a feeling that large, foreign-controlled firms dominate much of our economy and society, that Canadian-owned firms are sometimes "second best" in comparison, that entrepreneurial initiatives and technical innovation by Canadians are often not worth the risk because of the substantial market power of foreign-owned firms, and that our ability to achieve certain national goals may therefore be impaired.
7. Effects on Employee Attitudes: Employees of both foreign- and Canadian-controlled firms are generally content with the behaviour of their employers at the individual firm level; employees of both types of firm feel, however, that Canadian-owned firms are generally better corporate citizens and that the government should act to improve the competitive position of Canadian-controlled firms.
8. Effects on Continental Attitude: Industries with high levels of foreign ownership and/or a large existing dependency on the U.S. market (e.g. auto parts and forest-based industries) showed little interest in seeking more diverse export markets.
9. Level of Public Concern: While it was not immediately named as a high priority item of concern, public attitude survey respondents were uneasy about the current high levels and apparently continuing growth trends of foreign ownership in Canada; a high proportion (73%) felt that more government action is desirable to maintain Canadian control over our economy and society.

Some of the relevant policy options available to senior governments in Canada are discussed briefly in Section IV of this report. As discussed in this report and its companion volumes, we believe that an economic and business framework can be created which, over time, will produce a more healthy balance of ownership in this country and, in so doing, help to create a manufacturing, services and resource-based industrial complex in Canada which matches in size, diversity and self-reliance the skills, natural advantages and national aspirations of this country.

We appreciate the assistance given in reviewing this report by the members and staff of the Select Committee, and wish also to acknowledge the cooperation of those firms researched in the study as well as the assistance of other individuals and firms who participated in the study.

We have attempted to make the report as complete and objective as possible within the context of available time and resources, and we trust that it will assist the Committee in its deliberations. We hope also that this study will be of some use to businessmen - both Canadian and foreign - as they seek to understand and respond to growing forces of nationalism in Canada and elsewhere throughout the world.

Yours truly,

KATES, PEAT, MARWICK & CO.

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OVERVIEW REPORT

FOREIGN OWNERSHIP: CORPORATE BEHAVIOUR AND PUBLIC ATTITUDES

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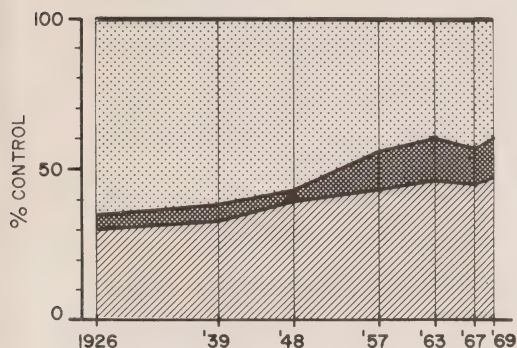
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PUBLISHED BY
THE ONTARIO SELECT COMMITTEE ON
ECONOMIC AND CULTURAL NATIONALISM

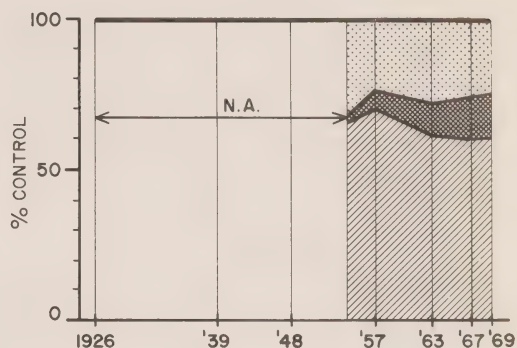
1. Foreign Ownership and the Advertising Industry, June, 1973
2. Foreign Ownership and the Mining Industry, October, 1973
3. Foreign Ownership: Architecture and Engineering Consulting, Oct. 1973
4. Foreign Ownership and the Auto Parts Industry, October, 1973
5. Foreign Ownership and Forest-Based Industries, October, 1973
6. Attitudes of Community Leaders and the General Public in Four Ontario Communities, October, 1973
7. Foreign Ownership and the Electronics Industry, January, 1974
8. Foreign Ownership and Employee Attitudes, February, 1974
9. Overview Report - Foreign Ownership: Corporate Behaviour and Public Attitudes, February, 1974

TRENDS OF NON-RESIDENT CONTROL OF CAPITAL INVESTED

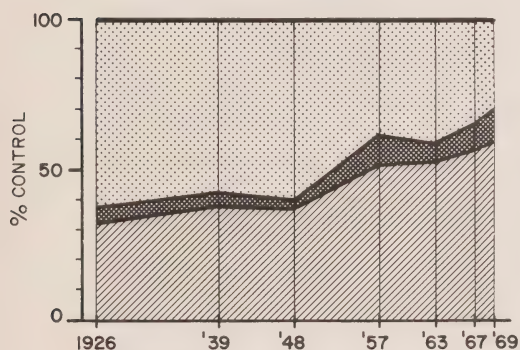
MANUFACTURING



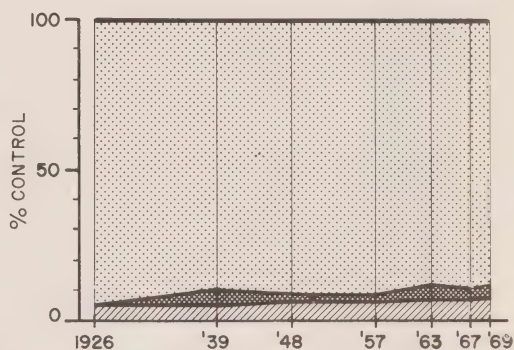
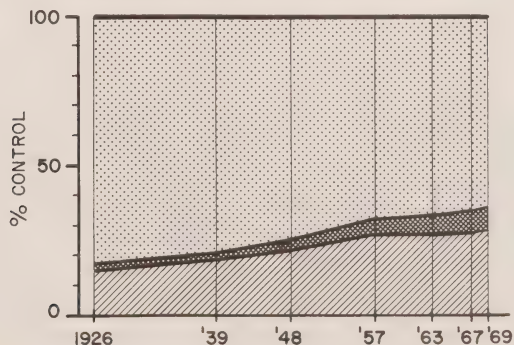
PETROLEUM AND NATURAL GAS



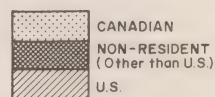
OTHER MINING AND SMELTING



MERCHANDISING AND CONSTRUCTION

TOTAL OF ABOVE PLUS
RAILWAY AND OTHER UTILITIES

LEGEND



SOURCE: STATISTICS CANADA,
CANADA'S INTERNATIONAL INVESTMENT POSITION 1926-1967
AND SUBSEQUENT PUBLICATIONS.

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I - THE FOREIGN OWNERSHIP DEBATE

INTRODUCTION

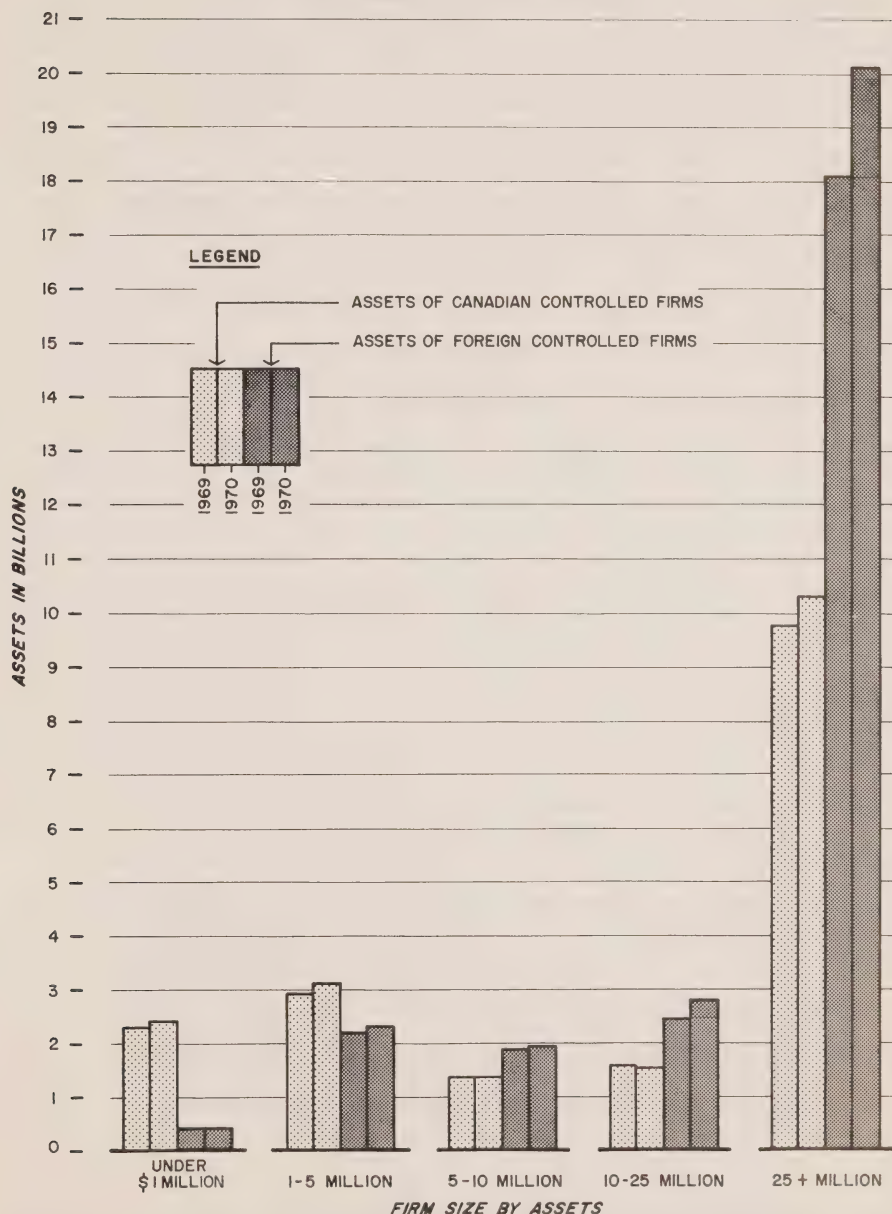
It is well known that high percentages of the assets of manufacturing and resource-based industries in Canada are owned and controlled by foreigners.* As illustrated in Exhibit 1, opposite, these percentages vary according to industry, but have grown substantially since the 1920's. Exhibit 2, overleaf, shows how foreign ownership is concentrated among the larger firms and how this concentration increased from 1969 to 1970, the last two years for which data are available. Both exhibits are based upon percentage of corporate assets falling into each ownership category.

There has been widespread debate in Canada about the immediate and longer-term impact of this foreign ownership, and the resulting foreign control, upon our economic, political, social and environmental well-being as a nation. The debate has increased in intensity over the past decade and has been complicated, here as in other countries, by the opposing forces of rising nationalism, on the one hand, and increasing world integration (based upon growing ties of commerce, communication and culture) on the other.

* In this study we use the terms foreign-owned and foreign-controlled interchangeably, recognizing that foreign ownership implies that a majority of voting stock in a firm be owned by foreigners while foreign control may exist if a single foreign interest or allied interests own less than a majority of voting stock but own a significantly larger block of shares than any other (Canadian) shareholder. It is recognized that there are complex problems in determining the size of the block required to control a firm; the broader implications of foreign ownership/foreign control situations are discussed where appropriate in the report. We use the term Canadian-based to describe any enterprise which is located in Canada regardless of the nationality of those owning and controlling it.

EXHIBIT 2

**DISTRIBUTION OF ASSETS
AMONG FOREIGN AND CANADIAN-CONTROLLED
MANUFACTURING CORPORATIONS
BY SIZE OF CORPORATION**



SOURCE : DATA FOR FIRMS IN THE 21 MANUFACTURING INDUSTRIES AS REPORTED BY STATISTICS CANADA, CORPORATIONS AND LABOUR UNIONS RETURNS ACT, REPORT FOR 1970, CATALOGUE 61-210 ANNUAL, MARCH, 1973.

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This report and its companion volumes of industry and attitudes sub-studies were commissioned by the Ontario Select Committee on Economic and Cultural Nationalism; they are intended to provide information on specific aspects of the foreign ownership debate which will assist the Committee in its deliberations on possible national and provincial policy actions in this area. Owing to the complexity and pervasiveness of the foreign ownership question, it is important that the scope, limitations and unique features of this study be recognized so that its results can be used most effectively by the Committee and others. We, therefore, provide a discussion of the context and intent of the study in this first section. The study's findings are summarized in Sections II and III, drawing upon the specific sub-studies reported on in separate volumes. Section IV draws together and discusses some of the more important findings, including a brief discussion relating findings of this study to the overall context and some of the more central issues of the foreign ownership debate.

TERMS OF REFERENCE

The terms of reference and scope of the study reflect the previous study of foreign ownership by government and the academic community. The most comprehensive study - the "Gray Report" on Foreign Direct Investment(1)* - provided a checklist of corporate behaviour and broad industry conditions, and a discussion of government policy options. The KPM&Co. study, which includes more detailed examinations of six industries, attempts to assess corporate behaviour against this type of checklist.

* Numbered references are listed in Appendix A.

Prior studies, including the 1957 "Gordon Report", of the Royal Commission on Canada's Economic Prospects (2), the "Watkins Report" on Foreign Ownership and the Structure of Canadian Industry (3), and the Gray Report were basically overview economic studies. The KPM&Co. study focusses on the specific behaviour of individual companies within selected industries, building upon a number of earlier studies, notably the work by Professor Safarian and others (4); it also goes beyond this to include the attitudes of employees of the companies involved and the public in four Ontario communities.

The KPM&Co. study also should be viewed within the context of various emerging federal and provincial policies related to foreign ownership. These include the proposed Foreign Investment Review Act (5) of the Federal Government, the previously established "Winters Guidelines" (6), on good corporate behaviour and a number of recent provincial measures. The result is an increasing need for study of the implications of individual company actions cumulative impacts of such actions, and the attitudes of businessmen and others toward the issues related to foreign ownership. The results of the KPM&Co. study in these areas should help to provide a basis for any further government actions which may be considered.

The study was carried out as follows:

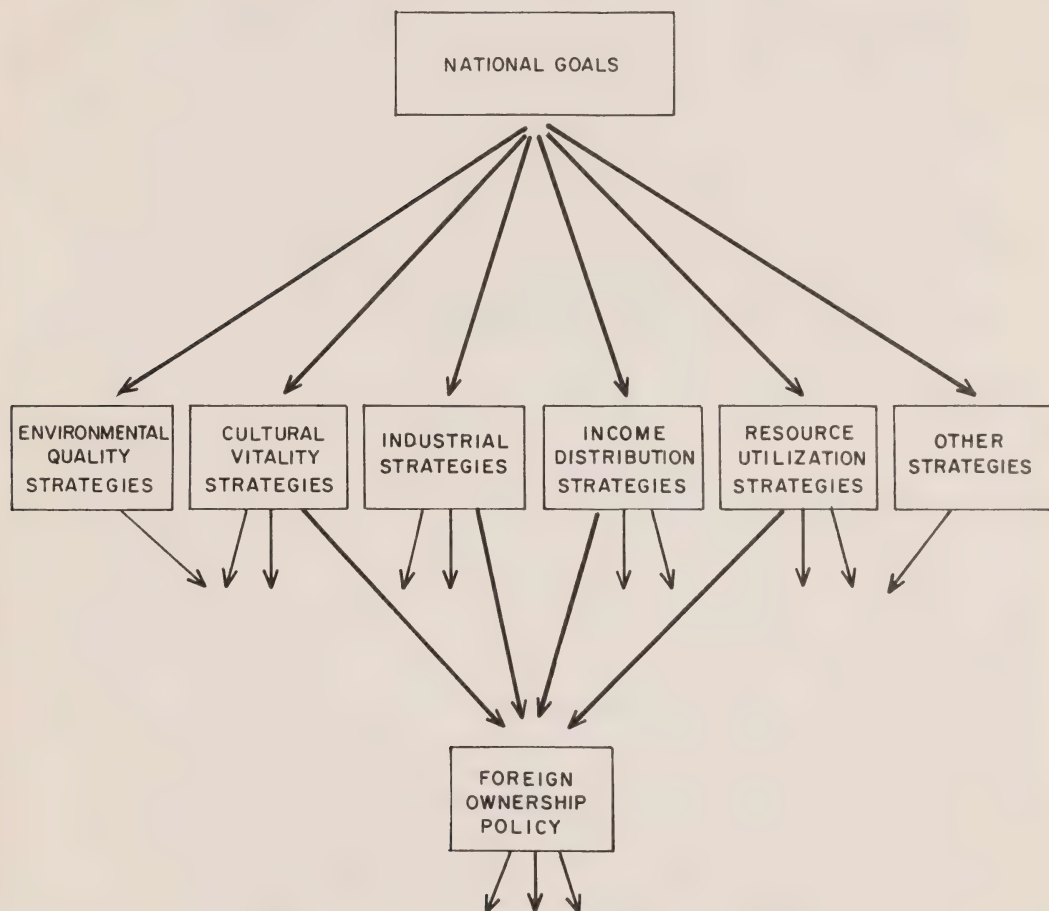
- a study was made of the comparative behaviour (in terms of corporate citizenship as well as economic performance) of a number of firms in

six industries in order to help determine what behavioural differences, if any, exist between foreign-owned and Canadian-owned firms in these industries. Industries were selected from among the services, manufacturing and resource-based sectors of the economy, with emphasis on industries of importance to the Province of Ontario

- in addition to the above factual information on the selected firms, interviews were carried out with senior management of these firms to obtain insight into management attitudes, possible responses of management to government policy initiatives, and the question of whether potential, future corporate behaviour might differ from actual behaviour observed during the past few years under possibly altered future economic and/or legislative environmental conditions
- a questionnaire on relevant issues was sent to a representative sample of the employees of the selected firms in order to determine if there are significant differences in the opinions of employees of foreign- and Canadian-owned firms regarding questions such as job satisfaction, perception of industry issues and nationalistic sentiments in general
- interviews were held with other industry leaders, both in the six selected industries, and in related areas such as banking, accounting, and labour unions, to obtain further information on the actual and potential behaviour of firms in the selected industries and attitudes regarding foreign ownership issues and policy implications
- interviews were held with opinion-leaders in four selected small Ontario communities to obtain their opinions on general issues of foreign ownership and, more specifically, the behaviour of foreign- and Canadian-owned firms in their community
- interviews were held with a representative sample of the general public in the same four small communities to obtain their attitudes on the above questions.

In the remainder of Section I, we outline the context in which this study was designed, basic questions to which it addresses itself, the

EXHIBIT 3
THE CONTEXTUAL APPROACH TO FOREIGN OWNERSHIP
POLICY DETERMINATION



NOTE: This Exhibit is for Illustration Purposes only

scope, limitations and unique features of the study, and the general process by which it was carried out.

GOALS AND STRATEGIES -
THE CONTEXT

Many observers have pointed out that foreign ownership is but one aspect of the many complex and inter-related conditions and activities which make up our national life. They make the point that it is illogical to develop a policy on foreign ownership without first putting it into context within the various strategies required to work towards the achievement of broad national and provincial goals.

As illustrated in Exhibit 3, opposite, this would, indeed, be a logical way to approach the question of foreign ownership. Given a consensus on a set of national goals, which in itself would be very difficult to achieve, it would be possible to develop industrial strategies (or a series of industry strategies), income distribution strategies, strategies to ensure the immediate- and long-term availability of energy and other natural resources at reasonable prices, strategies aimed at improving our physical and social environments, strategies to enhance Canada's cultural vitality, etc. The question of foreign ownership and its impacts would be pertinent to a number of these strategies, and a rational policy on foreign ownership and related matters could be developed within the context of these strategies.

For purposes of illustration, Exhibit 4, overleaf, indicates a number of broad national goals that might be postulated in the political,

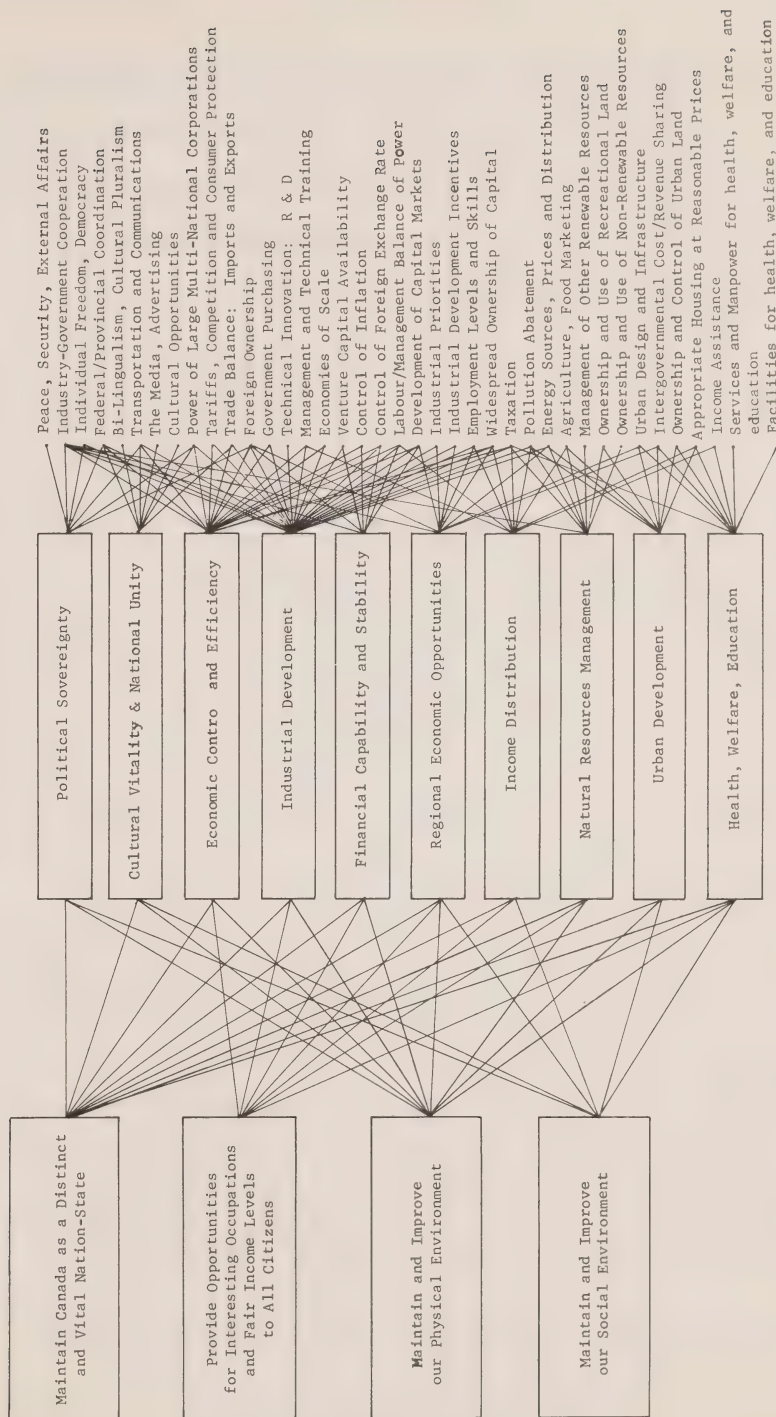
EXHIBIT 4

NATIONAL AND PROVINCIAL GOALS, STRATEGY IMPLICATIONS AND POLICY ISSUES

GOALS

STRATEGY IMPLICATIONS

POLICY ISSUES



N.B.: This Exhibit is for illustrative purposes only and does not constitute an attempt at a definitive breakdown of national goals, strategies and policy issues.

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economic, physical and social areas. These are listed at the left-hand side of the diagram. In the middle column are ten areas in which strategies could be developed to help meet the national goals, and in the right-hand column are shown more detailed policy issues which would have to be addressed as part of these strategies.

The lines provide an approximate indication of which issues are germane to which strategy areas, and which strategy areas have most interaction with each of the broad goals. Clearly, the list of policy issues and strategies is not complete, nor is it entirely consistent since some of the policy issues are problems, some are types of initiatives which could be taken by government, and others are merely end results. Nevertheless, the exhibit serves to illustrate complex interactions among the issues and strategy areas. For example, of the 39 policy issues listed, at least 20 are relevant to a set of industrial development strategies; and the foreign ownership issue has considerable relevancy to at least nine of the ten strategy areas shown.

The problems may be too complex and dynamic to allow clear-cut solutions developed from the top down. In spite of this, however, it is important that the Federal and Provincial Governments work to develop a more consistent set of strategies in such important areas as economic control and efficiency, industrial development, financial capability and stability, income distribution, natural resources management, and urban development, to select only some of those listed.

The problem is not that government wishes to avoid these questions, but that even their partial resolution will take considerable time and continual adjustment owing to their complexity and changing character over time. In the meantime, many policy issues, among them foreign ownership, may reach a level of immediacy which requires more detailed consideration and policy development, even though the more general context does not yet exist.

Alternative Approaches to Foreign Ownership

In terms of dealing with foreign ownership, there are those who would argue that it is an issue which should not be approached directly, even though it may be perceived by some as an urgent issue. Rather, a foreign ownership policy might be pursued obliquely, as part of the other strategies discussed above.

This argument is based largely upon the existence of extensive foreign ownership in Canada today and concerns about possible disruptions if attempts were made to change the situation substantially. Those holding this view point to a number of factors which they feel support the existing situation, including business interests of the foreign subsidiary in Canada, the strong "jobs-today" orientation of all levels of government, and the desire of Canadians for a standard of living equivalent to that of the United States (which, it is alleged by some, might be disrupted if the ownership status quo were altered). Others argue that the high level of foreign ownership, particularly in manufacturing and some resource-based industries, lends urgency to the

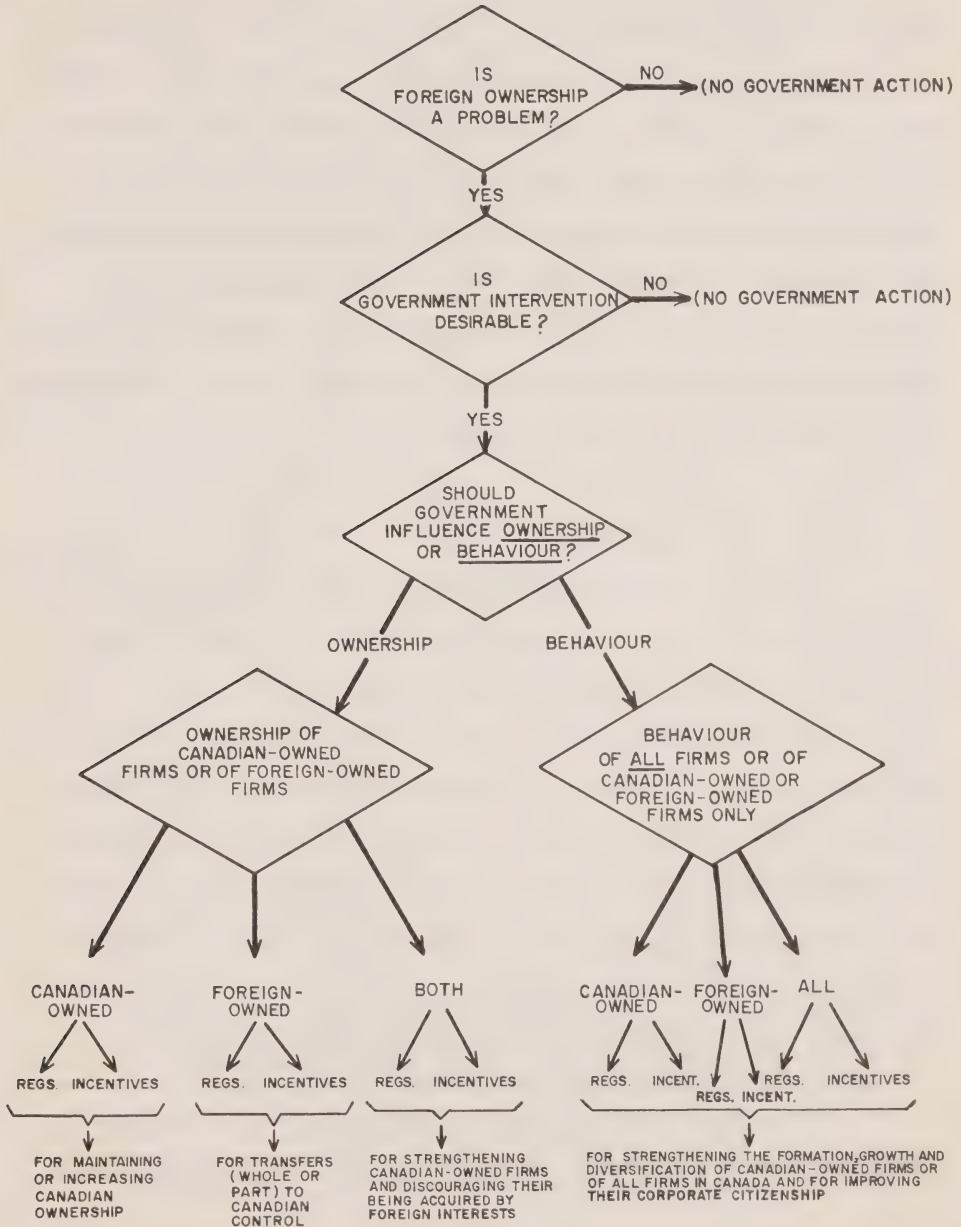
need for specific policies in this field. Those holding this view generally feel that, while transitory impacts may be felt, our economic position would be enhanced by lower levels of foreign ownership, in the appropriate policy context, in terms of measures such as jobs, incomes, industrial self-sufficiency, utilization and pricing of natural resources and balance of payments.

Among the wide-ranging viewpoints as to what policies should be implemented, are the following stated in a highly simplified form:

- take no further action because Canada's economy is now mature enough that the rising trends of foreign ownership will level off or reverse themselves, and further restrictions on ownership would be against our best interests
- increase the efficiency of Canadian business by lowering tariff barriers and developing other institutions and government interventions to strengthen Canadian-based enterprises, regardless of ownership
- create an economic framework and related government programs to encourage the growth and development of Canadian-controlled companies and discourage their being taken over by foreign interests; otherwise avoid penalizing foreign-controlled companies
- implement specific industrial strategies, such as concentrating on "emerging" industry and/or certain specialized fields, to provide Canada with a competitive edge in world markets, and attempt to harness both foreign- and Canadian-controlled corporations to this end
- take government initiatives to purchase control of key firms in a number of important industries where foreign ownership is high and/or growing; use these as policy levers to provide capital ownership opportunities to Canadians and to influence purchasing, pricing, product line and related behaviour in the industries affected to produce a stronger Canadian industrial complex.

EXHIBIT 5

GOVERNMENT INTERVENTION RE FOREIGN OWNERSHIP: SIMPLIFIED LOGIC DIAGRAM



- act to reduce foreign ownership within a framework of strong state ownership of key corporations in the economy and more comprehensive planning and management of the economy.

Substantially different assumptions about the nature and extent of the basic problem(s) in this situation appear to underlie the quite different types of policies outlined above. They reflect also a variety of philosophies regarding the roles of government and private enterprise in our society and economy. This variety, while basically healthy, emphasizes the difficulties faced by government in attempting to achieve a consensus based on national goals and strategies, on what (if anything) to do about foreign ownership in Canada.

Foreign Ownership Policy: Basic Questions

Faced with the unfortunate but common situation of complex problems requiring urgent decisions, policy-makers must do what they have done for centuries: make decisions on the best evidence available, trying to keep their options as open as possible and modifying them over time as new information becomes available. Exhibit 5, opposite, illustrates the type of logic which could be applied to the decision-making process of foreign ownership as an issue unto itself. The basic question is: is foreign ownership a significant problem? If not, no government action is warranted; if so, the possibility of government intervention must be considered further.

The next question is: is government intervention desirable? If not, no further government action is required; if so, the best type

of intervention must be determined. In the matter of foreign ownership, one type of government intervention could be aimed at directly affecting the ownership of Canadian-based firms, while another type of intervention could be aimed primarily at affecting their behaviour in ways which would better meet Canadian interests. As illustrated, the options become more numerous at this point. The question of whether to use regulations or incentives would have to be considered, as would the question of whether the policies should be aimed at all Canadian-based operations or only at foreign-owned or Canadian-owned firms, respectively. Intimately connected with these questions are the actual policy levers which could be used: taxes, tariffs, competition legislation, purchasing policy, financial incentives and assistance, percentage ownership regulations, investment screening, etc.

Assorted Policy Suggestions

Again, for purposes of illustration, it is useful in understanding the context of the study to list some of the policy initiatives which have been suggested by various analysts inside and outside of government. Some are directly related to foreign ownership, others affect foreign ownership but are more directly related to other issues and government strategies:

- multilateral or bilateral reduction of tariffs coupled with more appropriate competition legislation to favour the development of larger, more efficient and export-oriented Canadian-based manufacturing operations

- setting industrial priorities and providing incentives for the development of large, efficient, Canadian-controlled firms in key industries in which Canada has a natural advantage in terms of resources, skills, markets, transportation or other factors
- incentives for the development and retention of Canadian-owned multi-national corporations
- restrictions on foreign ownership levels in key sectors of the economy
- a government purchasing policy which takes into account the total socio-economic costs of foreign purchasing and seeks to foster technological innovation and development by Canadian-controlled firms
- setting requirements for greater purchasing by Canadian-based firms of components and professional services in Canada, thereby developing domestic skills and a basis for greater technological innovation in this country
- policies to develop entrepreneurs and managers with the breadth of skills to operate large enterprises, both by improving academic training and by providing Canadian-controlled enterprises of sufficient scope and breadth for appropriate on-the-job training
- measures to provide more venture capital, particularly to small firms, so that they can finance growth to more efficient scales
- measures to stimulate and channel investment into Canadian companies, thereby making more capital available in this country
- measures to limit proposed investment outside Canada by Canadian-controlled companies and institutions, thereby preserving domestic jobs and/or making more investment funds, (e.g. pension funds) available in Canada
- tax measures to inhibit foreign takeovers of Canadian firms, encourage Canadian ownership of Canadian-based firms, and/or provide incentives for greater export activity by Canadian-based and Canadian-owned enterprises
- incentives to make more corporate stocks available on Canadian stock markets and to encourage more widespread stock ownership by Canadian citizens

- fiscal and regulatory measures to provide for greater domestic processing and fabrication of raw materials mined in Canada
- greater regulation of natural resources development, and provision for their development by Canadian-controlled firms, in order to ensure that the pricing and rate of exploitation of such resources is in the best short- and long-term interests of Canadians
- measures to ensure that all Canadian-based labour unions are Canadian-controlled.

The list is much longer and possible combinations are many.

Long-Term Implications

Clearly, the types of policy measures which government will seriously consider and the costs, if any, which Canadians are prepared to accept in implementing these policies will depend very much on the question posed in the first box of Exhibit 5: Is Foreign Ownership a Problem (and if so how serious a problem is it)?

This question must be addressed in its long- as well as short-term context. Most Canadians would probably agree that 100 per cent foreign ownership of our manufacturing, resource-based and services industries would be undesirable and, in fact, intolerable. Some argue that this will happen eventually in many industries because present trends of increasing foreign ownership will continue; others argue that these trends are levelling off and foreign ownership will probably decline in the longer term. Attempts to answer this question must be based on an understanding of the relative competitive advantages of foreign- and Canadian-controlled firms operating in Canada under present and anticipated future conditions, and the incentives for new foreign investment to come

to Canada, assuming no substantial change in government policy. The results will very likely differ from industry to industry.

Impact on Structure
of Specific Industries

Part of the examination of whether foreign ownership is or will be a problem in Canada depends on an interpretation of its impact thus far in the different sectors of the economy as well as on our society as a whole. In general, many would argue that foreign direct investment has brought material benefits to Canadians and needed capital, technological, and managerial resources. Others would argue that the advent of many foreign corporations has stunted the development of a Canadian entrepreneurial group, and has resulted in the development of a caretaker management group instead.

It appears logical to address this issue on an industry-by-industry basis, since the results will probably differ by industry. It would be desirable to explore whether the prosperity of individual industries, measured in terms of Canadian objectives, is most well served by the continuing entry of direct foreign investment and the dominant role played by foreign-controlled corporations in many of our industries. Has foreign ownership in any given industry provided the needed capital, technology, and management skills at the least cost and greatest return? Has the large scale entry of foreign-owned firms improved the efficiency of the economy through increased competition, or has it monopolized or fragmented the industry to decrease competition and make the industry

less efficient? Has direct foreign investment produced greater large-scale manufacturing capability in Canada than would have resulted without it or (and) has it helped create a relatively weak secondary industry which is unlikely to develop new products, maintain strong domestic sales and expand export sales in the face of world competition? While definitive answers to all of these questions are unlikely to result from any one study, it would be useful to have more information of this type in attempting to assess the impact of foreign ownership in Canada.

Potential vs. Actual
Corporate Behaviour

Another point which is extremely relevant to the question of whether or not foreign ownership is, or will be, a significant problem in Canada relates to whether the potential behaviour of foreign-controlled firms might change in the future to have a more or less adverse effect on Canadian interests than does their current behaviour.

Attempts to address this question require an understanding not only of the historical context within which foreign-controlled firms were set up and are operating in Canada, but also an appreciation of the probable future environment which will face them and their Canadian-controlled competitors. In the past, many foreign-controlled firms were set up in Canada as subsidiaries of U.S. parent firms in order to "get behind" the Canadian tariff and serve the domestic Canadian market with possibly some exports to the British Commonwealth. Many of these subsidiaries were set up or acquired during the three decades since World War II, when the North American and Western European markets were growing very rapidly.

It seems likely that, during the coming decades, the development of markets in the "third world" and communist countries will also become more important factors for multi-national corporations; firms which are able to establish operations in other profitable markets will obtain increasing shares of world trade. The formation of new trading blocks, such as the European Economic Community, must also affect Canadian and U.S. trading patterns. In the future, largely or partly related to our high levels of foreign ownership, Canada may not be in the best competitive position for aggressive export promotion which requires innovative, export-oriented, and efficient enterprise.

With respect to the U.S., the increasingly negative trade balance faced by that country for imports of energy and raw materials may affect its trade and domestic employment policies substantially. The U.S. is already acting to direct production to domestic plants through DISC, and other legislation is being proposed. The combination of these U.S. problems and policies, plus changing world trade patterns may mean that U.S.-owned subsidiaries in Canada will become less export-oriented than at present and show less tendency to expand in Canada, as would be desirable to provide jobs for our rapidly growing labour force.

The future behaviour of foreign-controlled firms in Canada may therefore not be as beneficial as their past behaviour may have been, in economic terms. As a result of international economic problems and the resulting national economic policies, foreign-controlled firms may behave differently than in the past. Future investment may be diverted

to the home country; head office and manufacturing functions may be even more concentrated in the home country; foreign markets may be closed to subsidiary companies' exports; capital flow restrictions may become more severe; greater concentration of power within individual industries may have serious cultural, domestic competition, and other implications.

On the other hand, it may be that a high level of foreign involvement (but not necessarily ownership) could prove to be more beneficial to Canada's economy in the future than it has been to date. This could result from more stable export markets as foreign-owned subsidiaries feed their parents and sister firms in other countries, greater availability of capital, know-how and size of market to allow early development of major natural resources, and related factors.

As is the case for actual behaviour, potential corporate behaviour of both foreign- and Canadian-controlled firms in Canada is an area in which more knowledge and understanding is desirable as a basis for considering possible policy initiatives by government. The KPM&Co. study attempts to throw some light on the question of potential behaviour based on the opinions of managers in the six industries

Attempts to assess potential behavioural differences are even more difficult than those aimed at measuring actual behavioural differences, based as they must be upon estimates of the future business environment and responses of various firms to it. Nevertheless, this study has addressed

itself to both questions since both are felt by the Committee and the study team to be directly relevant to policy considerations in the field of foreign ownership.

To illustrate the possible importance of potential behavioural differences in terms of the policy issues set out for illustrative purposes in Exhibit 4, Exhibit 6, overleaf, lists 30 of the policy issues relevant to foreign ownership. For illustration only, Exhibit 6 rates each of the sets of issues in terms of its actual and potential tendency to be influenced by foreign ownership. The interactions are shown (very qualitatively) as high, medium and low. Bearing in mind the comments in the preceding paragraphs a number of potential interactions are shown as being higher than they may be at present.

Context of
the KPM Study

The comments in the three preceding paragraphs are not advanced at this point as findings, or even as theories. Rather, they are hypotheses which should be tested by various types of fact finding and studies in order to shed more light on the important first question about foreign ownership: is it (or will it be) a significant problem and, if so, how significant? This is the basic question which the Kates, Peat, Marwick & Co. study attempts to answer for the six selected industries. The study does this by examining actual behaviour of firms

EXHIBIT 6
ILLUSTRATION OF ISSUES RELATING TO FOREIGN OWNERSHIP

STRATEGY IMPLICATIONS	POLICY ISSUES	DEGREE ¹ TO WHICH INFLUENCED BY FOREIGN OWNERSHIP	
		ACTUAL	POTENTIAL
POLITICAL AUTONOMY	<ul style="list-style-type: none"> - Peace, Security, External Affairs - Industry-Government Cooperation - Power of Large Multi-national Corporations 	Medium ²	High
CULTURAL VITALITY & NATIONAL UNITY	<ul style="list-style-type: none"> - The Media, Advertising - Cultural Opportunities 	Medium	Medium
ECONOMIC CONTROL & EFFICIENCY	<ul style="list-style-type: none"> - Tariffs, Competition and Consumer Protection - Trade Balance: Imports and Exports 	Medium	High
INDUSTRIAL DEVELOPMENT	<ul style="list-style-type: none"> - Government Purchasing - Technical Innovation: R & D - Management and Technical Training - Economies of Scale - Venture Capital Availability - Industrial Priorities 	Medium	High
FINANCIAL CAPABILITY AND STABILITY	<ul style="list-style-type: none"> - Control of Inflation - Control of Foreign Exchange Rate - Development of Capital Markets 	Low	Medium
REGIONAL ECONOMIC OPPORTUNITIES INCOME DISTRIBUTION	<ul style="list-style-type: none"> - Industrial Development Incentives - Employment Levels and Skills - Widespread Ownership of Capital - Taxation 	Medium	High
NATURAL RESOURCES MANAGEMENT	<ul style="list-style-type: none"> - Energy Sources, Prices and Distribution - Agriculture, Food Marketing - Management of Other Renewable Resources - Ownership and Use of Recreational Land - Ownership and Use of Non-Renewable Resources 	Medium	High
URBAN DEVELOPMENT	<ul style="list-style-type: none"> - Urban Design and Infrastructure - Ownership and Control of Land - Housing 	Medium	Medium

Notes: 1. Denotes degree of impact or influence as a result of the foreign ownership of a large portion of some sectors of the Canadian economy.

2. The measures of medium, high, and low are very qualitative and are for illustration purposes only.

Kates, Peat, Marwick & Co.

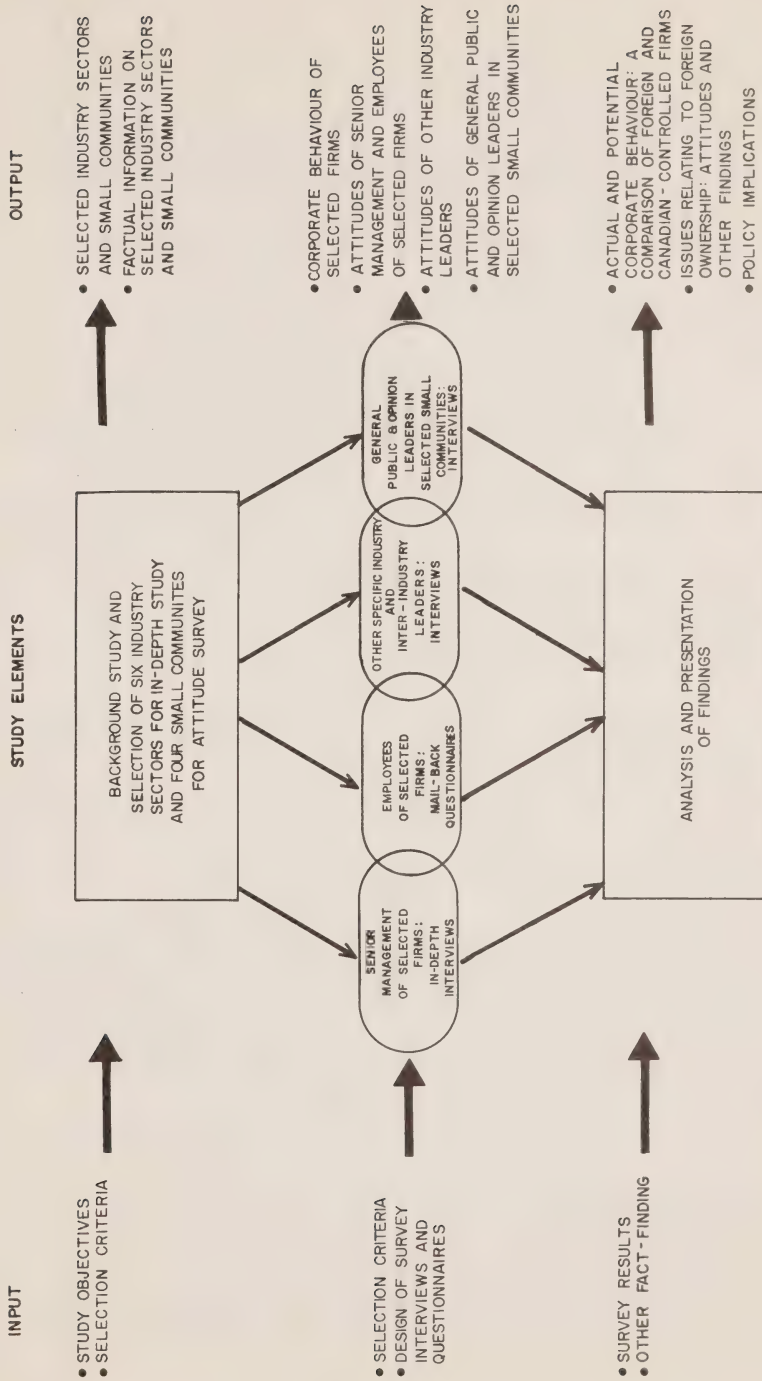
in the six industries, potential behaviour and the impact of foreign ownership on the industry as seen through the eyes of their executives and others, and attitudes on relevant issues as seen by industry leaders, employees, and opinion leaders and the general public in selected small communities.

In view of the considerable interaction between foreign ownership and other policy issues as discussed above, the study is not of foreign ownership in isolation. The study takes into account, where appropriate, the related issues of industrial development, political autonomy, natural resources management and cultural vitality, among others.

THE STUDY PROCESS

The study process is illustrated in Exhibit 7, overleaf. A background study was carried out during December 1972 and January 1973 which led to the selection of six industries, four small communities and four to seven firms within each of the six industries. As described in an interim progress report, submitted to the Committee in January, 1973, a number of industries were evaluated, including advertising, engineering consultants and architects, electronics, auto parts, appliances, aerospace industries, machine tools, chemicals and chemical products, food processing, pulp and paper, and ferrous and non-ferrous metals. The criteria used in selecting six industries for more detailed study were as follows:

THE STUDY PROCESS



- an important part of the industry is located in Ontario
- examples of both Canadian- and foreign-controlled corporations exist in Ontario of suitable sizes and characteristics for comparison purposes
- government action is feasible in the industry
- at least one of the industries has a high technology content
- at least one of the industries is dominated by large corporations, and at least one is composed of a wide variety of small to medium sized companies
- a high level of impact on political or cultural autonomy by at least one of the industries
- high public visibility or other perceived relevance to foreign ownership
- high skill requirements, managerial/professional content or entrepreneurial content
- an emerging industry or one vulnerable to foreign take-over.

Also, as indicated earlier, examples were evenly distributed among the service, manufacturing and resource-based sectors.

Referring back to Exhibit 7, the four small communities were selected to provide a range of sizes, locations, levels of income and unemployment, diversity of industrial base, and degree of dependence on foreign- and/or Canadian-controlled firms.

Selected Industries and Study Approach

After discussion of the analysis and evaluation with the Committee, the following six industries were selected:

Services

- advertising agencies
- architecture and engineering consulting.

Manufacturing

- electronics (home entertainment and communications equipment)
- automotive parts.

Resource-Based

- forest-based industries
- mining (metals).

The approach within each of these industries was different from that taken by a number of other investigators, in that a relatively small number (4-7) of firms was selected within each industry for in-depth study. This was based partly upon the time and resources available for the study and, more importantly, on a desire to research more thoroughly the performance of a few companies, to complement and add to earlier, more broadly statistically based studies which reviewed behaviour of many companies in less detail. Effort was also devoted, however, to collecting industry-wide data where necessary and applying other statistical data where available.*

Rather than repeating past statistical or broad economic studies, it was felt to be more useful to provide more of an in-depth case study

* Such studies by Safarian (4) in particular provide a good statistical basis for understanding current economic performance in the primary and secondary manufacturing sectors.

approach to a smaller number of firms. This was done by focussing on current economic performance, current non-economic behaviour, potential economic and non-economic behaviour, possible responses to government policy initiatives, and opinions held by the employees, civic leaders and the general public in affected communities.

Owing to the in-depth scrutiny to which each selected firm was subjected, it was agreed with the Committee that the identity of each firm would be kept confidential in order that they not be constrained in providing the requested information. The names of the small communities are also kept confidential to prevent indirect inferences regarding the identities of the firms studied, some of which are prominent in these communities.

Twenty-nine firms were studied in depth and 75 senior executives were interviewed in these firms. Another 20 chief executive officers of other firms were interviewed, as well as 93 industry leaders and other specialists. Mail-back questionnaires were sent to 2,245 employees and 567 usable replies were received, a response rate of 25.3 per cent which provides enough of a sample for a broad comparison of employee attitudes in foreign- and Canadian-controlled firms. About 100 other contacts were made while researching the six industries. Thirty-two opinion leaders and 400 members of the general public were interviewed in the four selected small communities.

Basis for
Study Approach

As pointed out above, this study is more limited than some broadly statistical studies in the degree of representativeness of some of its findings, and accordingly, great care must be taken in generalizing from the findings reported for the selected firms. Some generalizations are possible, however, both from this study alone and by interpreting its findings together with those of other studies and surveys.

It is important to understand also that this study is a background to policy. Its prime purpose is to provide information of the types described above which will assist the Committee in developing its own policy recommendations. In accordance with the terms of reference, the comments on policy implications contained in Sections II and IV of this report and in each of the industry sub-studies are not policy recommendations and are intended as a basis for discussion to assist the Committee in its deliberations.

As noted earlier, the eight companion volumes to this report present, respectively, the findings for each of the six industries studied, the employee attitude survey, and the survey of public attitudes in four small Ontario communities. Section II, following, summarizes the conclusions and policy implications as presented in the final section of each of the six industry reports. Also summarized in this section is the system of economic and functional interrelationships which

characterizes each industry and a table of the major behavioural differences and similarities identified between foreign- and Canadian-controlled firms in each industry; the six industry reports should be referred to for more detail on these findings.

II - SUMMARY OF INDUSTRY SUB-STUDIES

II - SUMMARY OF INDUSTRY SUB-STUDIES

As indicated above, this section presents a summary of the sub-studies which were carried out for the following six industries*:

- advertising
- architecture and engineering consulting
- automotive parts
- electronics
- forest-based industries
- mining (metals).

The findings for each industry are summarized, respectively, in the following six sub-sections. Each sub-section includes the following material:

- a brief outline of the industry and the components of the industry on which attention was focussed
- a summary of existing behavioural comparisons between Canadian-controlled and foreign-controlled firms in the industry
- commentary on attitudes of businessmen in the industry and, where relevant, potential behaviour in terms of ownership and related factors under one or more assumptions about the future environment within which the industry will be operating
- comments upon government policy initiatives which are suggested for possible consideration by the Committee based upon study findings.

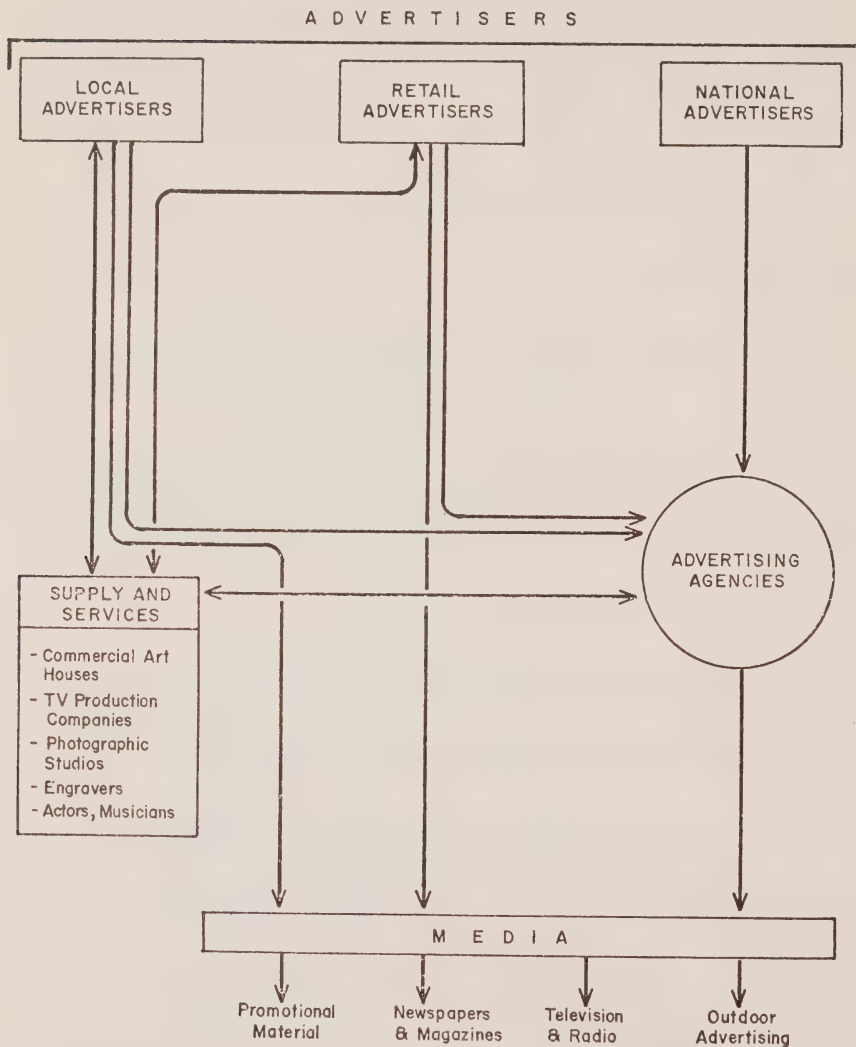
* Inputs to, and outputs from the basic industries, particularly for the resource-based industries, were also included in the study because of the importance of these backward and forward linkages in understanding the possible impacts of foreign ownership.

The material in this section is presented in summary form; individual industry sub-study volumes, listed at the beginning of this report, should be referred to for more details. Results of the attitude surveys of employees and residents in small Ontario communities are summarized in Section III of this report, and are therefore not covered in this section.

THE ADVERTISING INDUSTRY

As illustrated in Exhibit 8, opposite, the advertising industry is made up of those seeking advertising services (referred to as the advertisers), those providing such services (the advertising agencies and other companies and individuals providing artistic, graphic and related supplies and services), and those distributing advertising material to the public (the printed and broadcast media).

In this study, we focussed attention on the advertising agencies since these occupy a central position in the industry, provide the bulk of the advertising material to which consumers are exposed, and are subject to current controversy regarding increasing penetration of the market by foreign-controlled agencies. The importation of television commercials by advertising agencies and advertisers is another issue in which the degree of foreign ownership among both agencies and advertisers was seen to be relevant. The advertising industry was chosen for study because of its "high profile" in cultural and economic terms, and because of the number of briefs, some of them conflicting, which were received by

EXHIBIT 8COMPONENTS OF THE ADVERTISING
INDUSTRY AND FLOW OF SERVICES

- NOTES: 1. Local & Retail Advertisers often do not use an Advertising Agency and buy Media Time directly; National Advertisers generally use Agencies
2. Supply Companies service Advertisers as well as Advertising Agencies

the Committee regarding the above issues and related aspects of foreign ownership in advertising.

Four advertising agencies were studied in detail: two foreign-controlled and two Canadian-controlled. Each of the four agencies offered a full line of services to advertisers. Two of the agencies were very large and two were medium to large in size.

Additional information on the industry was obtained from the following sources:

- interviews with four smaller advertising agencies, one foreign-controlled and three Canadian-controlled
- discussions with officials of the Institute of Canadian Advertising (ICA) and the Canadian Advertising Advisory Board (CAAB)
- a questionnaire sent by Agency Forum to all its member agencies
- statistical information on the industry from Statistics Canada and other sources
- background information provided by the "Group of Ten" foreign-controlled agencies who had submitted an earlier brief to the Select Committee
- a questionnaire sent by the Association of Canadian Advertisers (ACA) to its Ontario-based members (142 firms of which approximately 69 per cent are foreign-controlled)
- interviews with representatives of major newspapers, radio stations, magazines, commercial production houses and on- and off-camera people
- interviews with representatives of the Canadian Radio and Television Commission and the Department of National Revenue.

Comparisons of Existing Behaviour
and Management Attitudes

Exhibit 9, overleaf, summarizes the comparison of behaviour by Canadian- and foreign-controlled advertising agencies for ten years of behaviour, and attitudes of agency executives toward five types of possible government action.

The most noticeable behavioural differences are that foreign-controlled agencies tend to serve larger advertisers, many of which are foreign-owned, and are served in their home countries by the parent of the advertising agency (referred to as the "common account" phenomenon). Canadian-controlled agencies tend, on the other hand, to handle smaller accounts and those which involve less national advertising (e.g. on national television networks). Probably related to the common account situation and to growth in the overall level of foreign ownership in our economy, foreign-controlled agencies have increased their share of the total market at the rate of two per cent to eight per cent per year during the past 22 years, moving from a market share of 12.5 per cent in 1950 to 31.4 per cent in 1971.

There has been considerable controversy in the industry as to whether foreign-controlled agencies are more likely to import television commercials than are Canadian-controlled agencies, and how much in total is imported. Based on our findings, it would seem that there is an equal tendency to import television commercials by both types of agencies for similar types of advertising accounts; however, foreign-controlled agencies do import more because they tend to handle mass consumer type

EXHIBIT 9

GENERALIZED BEHAVIOUR AND ATTITUDE
COMPARISON FOR ADVERTISING AGENCIES

Type of Behaviour/Attitude	Behaviour or Attitude of Canadian-Controlled Versus Foreign-Controlled Firms
1. Pollution abatement	1. Not applicable.
2. Research and Development.	2. Foreign-controlled agencies handle products that are more heavily researched, often in the U.S.
3. Labour relations.	3. No observed differences.
4. Ability to serve domestic market.	4. Canadian-controlled agencies tend to handle smaller accounts, thus serve domestic market more broadly.
5. Ability to obtain export markets.	5. Little difference in export - still largely potential rather than actual.
6. Ability to obtain "fair share" of domestic market.	6. Canadian-controlled agencies at a disadvantage in obtaining accounts of foreign-controlled subsidiaries operating in Canada
7. Tendency to import.	7. Equal tendency for similar types of accounts.
8. Support of local community.	8. Possibly somewhat more involvement by Canadian-controlled agency personnel.
9. Management autonomy.	9. Foreign-controlled agencies are fairly autonomous when profitable.
10. Trend to increasing foreign ownership.	10. Historical increase of 2-8% per year in foreign-controlled agency market share.
11. Attitude to free trade.	11. No differences.
12. Attitude to screening legislation.	12. Some Canadian-controlled agencies would like to include service companies.
13. Attitude to non-discriminatory government regulation of corporate behaviour.	13. Canadian-controlled agencies favour incentives.
14. Attitude to discriminatory government regulation of foreign-owned firms.	14. Agencies generally against discriminatory action.
15. Attitude to use of "moral suasion" by government.	15. Foreign-controlled agencies opposed; Cdn.-controlled moderately for.

accounts (soap, tissues, etc.) for which many TV commercials are produced in the United States. The number of commercials imported directly or adapted in Canada is about 30 per cent of the total number of national commercials, while the total value of the American-made commercials is in excess of that 30 per cent figure.

It was found that, while foreign-controlled agencies are quite autonomous when they are profitable, more direction is given by head office in lean times. Their administrative costs are less than those of Canadian-controlled agencies, reflecting a tendency to handle larger accounts. There were no observed differences in terms of labour relations and export market performance. Personnel of Canadian-controlled agencies showed a slightly greater level of community involvement than did personnel of foreign-controlled agencies, among those agencies studied.

Attitudes

In terms of attitudes, executives of Canadian-controlled agencies tended to favour government incentives to strengthen Canadian-controlled agencies and give them more equal opportunities in serving large, foreign-owned advertisers, so that they would have a better chance of maintaining or improving their share of the market. Some executives of Canadian-controlled agencies also favoured reductions in the threshold size of companies falling under the proposed screening legislation of the Federal Government,(5) such that advertising agencies and other services companies would be subjected to the same screening process as larger companies. Executives of all agencies were generally against discriminatory action by government against foreign-controlled agencies. While

there were no differences in their attitudes toward reduction of tariffs, executives of Canadian-controlled agencies tended to be in favour of moral suasion by government to help strengthen their market position, while those of foreign-controlled agencies were against this approach.

Potential Behaviour

The conclusion reached following the analysis of the operating differences between Canadian- and foreign-controlled agencies is that the latter are in a better competitive position than are Canadian-controlled agencies.

The main reasons for this are as follows:

- foreign-controlled agencies have a built-in advantage in so many "common accounts" between foreign-controlled advertisers and foreign-controlled agencies and their respective parents
- foreign-controlled agencies appear to be somewhat more efficiently managed, due to their concentration on large accounts, the explicit or implicit profit pressure on local management, and to some extent their international resources
- foreign-controlled agencies have more experience than Canadian-controlled agencies in the really competitive advertising areas, such as package goods and the use of the television medium.

On the other hand, Canadian-controlled agencies are in a healthy state as a whole, are competently managed, and are gaining more experience in the competitive marketing areas. Nevertheless, it would appear that the foreign-controlled agencies will continue to make relative gains, particularly among large advertising clients of whom

a large proportion are themselves foreign-controlled, if past conditions carry into the future.

In actual fact, foreign-controlled agencies may or may not continue the past trend of steady penetration into the Canadian market. Among the uncertainties is the arbitrary nature of the agency selection process, which may go against the foreign-controlled agency if advertisers decide to put forward a pro-Canadian posture.

Another aspect of the foreign/Canadian control mix that is complicated is the future partial ownership situation. There will probably be further Canadian-owned agency attempts to go international, and actions in this direction may lead to ownership exchanges between Canadian and foreign agencies. Partial foreign ownership of primarily Canadian-owned agencies may bring with it elements of foreign control, in areas such as executive appointments, the sharing of international markets and domestic expansion opportunities.

Policy Considerations

If the foreign-controlled agency is in a better competitive position than its Canadian-controlled counterpart, one could argue that there might be some cause for protecting the Canadian-controlled advertising agencies from the "unequal" foreign competition. If, in this industry, it is perceived as advantageous to retain most of the advertising agencies in Canadian hands, then various protective measures might be considered.

Retention of Canadian Control

A case might be made for the protection of the agency business simply on the basis that it is a "key sector", if foreign ownership per se is viewed as a problem. The agency business might qualify as a key sector because it is perceived that it is important to retain ownership in Canada, whatever the objective considerations of the differences between Canadian- and foreign-controlled agencies.

If more justification is required than simply protecting this one part of the advertising industry, then it would have to be based on an assessment of the actual positive benefits of Canadian control. As indicated by the earlier analysis of Canadian-controlled and foreign-controlled agencies there were few, if any, differences between them in terms of the way they conducted their everyday advertising business. Advertising is viewed by both groups as a business, and would probably not substantially change in itself if all advertising agencies were Canadian-controlled.

Nevertheless, arguments for increasing the level of Canadian control of agencies in Canada can be made and would appear to rest on two grounds. The first is cultural, and the second is the business environment of the industry.

Cultural Argument

The cultural argument for greater Canadian control of advertising agencies rests on the dual assumption that (a) the Canadian-controlled

agency owner/manager would better reflect broad demands of Canadian society in advertising than would the foreign-controlled agency's management, and (b) major policy decisions, which distinguish the owner/manager from the foreign owner/local manager, can be translated into specific advertising practices that better reflect Canadian society's advertising demands.

The differences in product line, size of account and ownership of the agency's clients could be said to be a more important determinant of the above cultural sensitivities than ownership. However, it was ownership that originally determined the direction of the agency and it is the historical evolution of the two sets of agencies which separates them now. A snap change in ownership would not alter history. Changes over a longer period of time as a result of Canadian ownership might, however, create an environment in which a new tradition could develop.

The most substantive cultural argument with respect to import restriction is in the indirect benefits to Canada's cultural industries. As documented in Section V of the Advertising Industry report, this benefit would be important though not a dominating influence on cultural industries in Canada.

Economic Argument

As has been mentioned above, foreign-controlled agencies have increased competition in the Canadian advertising industry. To some extent, one could conclude that the efficiency of advertising services

has improved as a result. However, the advent of foreign-controlled agencies has succeeded in "locking up" much of the multi-national advertising business in Canada. To some extent, then, this efficiency attributed to the foreign-controlled agencies operating in Canada may be reduced by the de facto monopoly of such large accounts.

It might be argued as a corollary that the business and competitive environment would be improved if the government and certain Canadian-controlled advertiser business were in turn "unlocked" from the Canadian-controlled agencies. Modifications in the ownership status of foreign-controlled agencies would tend to render them "eligible" for this business, and thus provide additional alternatives for these advertisers.

Besides these limitations in competition among advertising agencies, the foreign-controlled advertising agencies have, as noted in the Advertising Industry report, helped to bring efficient business practices into the agency business. They have also contributed to the transfer into Canada of advertising and marketing techniques. The foreign-controlled agencies that are well established in Canada are not very truncated^{*} organizations. The economics of inter-agency exchanges generally work against their using foreign-based personnel.

Foreign-controlled agencies appear to have been more diversified in advertising than Canadian-controlled agencies but have tended not to consider branching out as much into other activities. To some extent, it could be maintained that the Canadian economy has not benefited as much

* The term "truncated", is used in this study to describe an enterprise (usually a subsidiary) for which one or more essential functions (such as corporate financial decisions, research and development, marketing, union negotiations, procurement, etc.) are carried out by another entity (usually the subsidiary's parent).

as it could have from more entrepreneurial use of the additional cash generated by advertising agencies. The Canadian manager of the foreign-controlled agency is perhaps both more circumspect personally than the Canadian owner/manager, and more restricted in his investments by the international head office.

The business argument for maintaining the ownership mix primarily Canadian is based to some extent on the assessment of the future of international advertising. If strong Canadian-controlled advertising agencies are to establish branch offices elsewhere in the world, or establish links with fairly decentralized international agencies, the maintenance of Canadian ownership might reasonably be supported.

The question is whether there are advantages to having Canadian-controlled international agencies as opposed to foreign-controlled ones. One advantage is purely psychological, and that is a sense of pride in working for or using the services of a home-based international agency, or as a citizen knowing that there are some Canadian-controlled international firms in a highly visible industry.

Another advantage to Canadian-controlled international operations is more economic: international agencies that are successful and based in Canada are in effect exporting services, an export area which is not a strong point in this country. International agencies operating out of Canada might also convey certain advantages to other service industry exports. The international chain could possibly be used to serve as a Canadian base for other than advertising operations.

The most important argument for Canadian-controlled international agencies is the potential assistance to Canadian exporters, both of services and of goods. As a trading country, Canada might well opt for strong Canadian-based marketing and advertising capability. While Canadian-controlled firms can always use the foreign-controlled international agency for their foreign advertising needs, the established tendency for advertisers based in one country to use the home international agency's branch in that country would imply that there are certain economic advantages to be gained from our having Canadian-controlled international agencies.

The international business argument speaks for the strengthening of Canadian-controlled agencies, while the competition argument raises the question of whether the implicit monopolies of existing advertiser/agency relationships should be broken.

The domestic operations argument suggests possible corporate behaviour guidelines, although these guidelines might be difficult to identify and support. On an agency-by-agency basis, the foreign-controlled agency seems to contribute rather than detract from the advertising industry business environment. It is primarily when the foreign-controlled agencies' characteristics are viewed as a group that Canadian ownership arguments become more cogent.

The conclusion to be drawn from the sub-study of foreign-ownership in the advertising industry is primarily that foreign ownership

of agencies is an over-simplified issue. Arguments for and against more Canadian ownership have been presented, as well as a discussion of how government policy might be used to affect ownership. However, the analysis indicates that while certain economic and cultural issues can be dealt with in part through agency ownership requirements, they can also be addressed by concentrating on the behaviour of foreign-, and in some cases, Canadian-controlled firms. This conclusion is illustrated by the following points culled from the discussions above.

Cultural Objectives

1. The behaviour of advertisers, and to some extent agencies, could be altered through constraints on the importation of advertising materials, as discussed in Section V of the Advertising Industry report. This measure would provide indirect support to cultural industries, and a degree of "Canadianization" of the advertising used in Canada.
2. The ownership of agencies could be altered through Canadian ownership requirements. Over the long run, this measure would appear to have some "Canadianization" impact on the conduct of the advertising business in Canada; this impact would be somewhat more subtle and possibly more pervasive in nature than import restrictions.

Business Objectives

1. The behaviour of the advertisers could be altered through competition policy to free up the agency/advertiser relationship; this would open up large new markets to Canadian-controlled agencies (the multi-national companies) and, depending on the policy adopted, some to foreign-controlled agencies (governments), and might be expected to have a positive impact on the industry as a whole.

2. The behaviour of the foreign-controlled agencies could be altered to ensure that they have a commitment to the development of expertise and the pursuit of expansion opportunities by the Canadian office. The Canadian office would then be in a better position to extend its own influence in the international market and make greater use of its resources for domestic activities.
3. The behaviour of the Canadian-controlled agencies could be modified with appropriate incentives to become more international. Such expansion encouragement would assist the development of Canadian-controlled international agencies and also the internationally minded Canadian-controlled advertiser.

The nature of possible policy initiatives to achieve such objectives is discussed in the Advertising Industry report, concluding section.

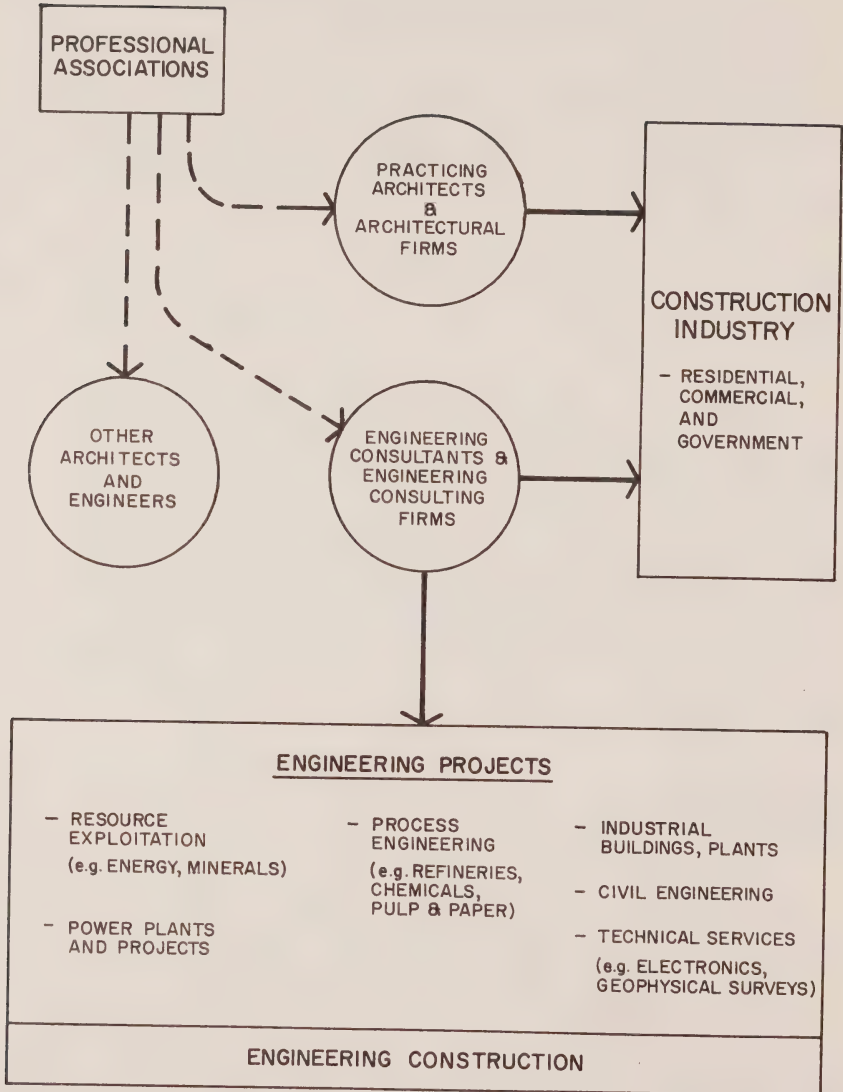
A final consideration in the issue of behaviour versus ownership is the complexity of designing and policing specific regulations related to behaviour. The appropriateness and success of any government interventions with respect to directing behaviour will depend on the overall cooperation of the advertising industry. Therefore, prior to the introduction of behavioural guidelines, there should be substantial industry/government discussion.

ARCHITECTURE AND ENGINEERING CONSULTING

As illustrated in Exhibit 10, opposite, both architectural firms and engineering consultants provide professional services to the construction industry; these services consist primarily of planning and feasibility studies, functional planning, design, construction supervision and, in some cases, actual construction. Engineering consultants, in addition, provide similar types of services for major

EXHIBIT 10

ARCHITECTS AND ENGINEERING CONSULTING
SERVICE AND PROFESSIONAL RELATIONSHIP



engineering projects in the areas of resource exploitation, process engineering and other industrial plants and technical service areas.

Licencing of architects and professional engineers to practice in Ontario is controlled, respectively, by the Ontario Association of Architects (OAA) and the Association of Professional Engineers of Ontario (APEO). The OAA requires that foreign-controlled firms cannot practice architecture independently in Ontario; they must be associated with a firm or individual who is registered with the Association and who signs all drawings. The APEO allows foreign engineers and engineering firms to practice in Ontario, provided that they obtain a licence to do so which is granted on a year-by-year basis.

The Architecture and Engineering consulting (A and E) industry was selected for study because: it is important to the industrial and resource development of the province and the country; it has important export potentials; it provides high skill employment; it is a service industry in which there has been substantial involvement of foreign-controlled firms; foreign architects, in particular, are believed to have significant cultural impact through their influence on the design of major downtown developments.

Five firms were selected for detailed study, including two large foreign-controlled and two large Canadian-controlled engineering consulting firms and a large Canadian-controlled architectural firm. A foreign-controlled architecture firm was not included owing to the OAA restriction and the resulting lack of such firms operating in Ontario.

Additional information was obtained from the following sources:

- interviews with senior officials of ten other engineering and architects firms covering a wider range of sizes and types of practice than those represented by the five firms described above
- interviews with officials of the Association of Professional Engineers of Ontario (APEO), the Association of Consulting Engineers of Canada (ACEC), the Royal Architectural Institute of Canada (RAIC), the Ontario Association of Architects (OAA) and the Engineering Institute of Canada (EIC)
- detailed discussions with those involved in preparing the Report of the Committee on Canadian Engineering for Canadian Engineers, which was published in May, 1973 by the APEO
- statistical information on the A and E industry from sources such as Statistics Canada and officials of relevant federal and provincial departments
- interviews with purchasers of engineering consultants' and architects' services.

Comparison of Existing Behaviour and Attitudes

As summarized in Exhibit 11, overleaf, the major existing behavioural difference between Canadian-controlled and foreign-controlled engineering firms is that the latter continued to dominate the large, complex resource development projects. Canadian-controlled firms appear to be at a disadvantage for these types of projects for a number of reasons:

- in some cases they do not have the specialized expertise and/or do not have a large enough pool of manpower with the required types of expertise
- in some cases they appear to be limited in responding to the client's desire for a "turnkey" projects (that is delivery of an operating facility within specified time deadlines and budgets) because

EXHIBIT 11GENERALIZED BEHAVIOUR AND ATTITUDE
COMPARISON FOR THE A & E INDUSTRY

Type of Behaviour/Attitude	Behaviour or Attitude of Canadian-Controlled versus Foreign-Controlled Firms
1. Pollution abatement.	1. No difference in attitude.
2. Research and Development	2. Little difference.
3. Labour relations.	3. No observed differences.
4. Ability to serve domestic market.	4. Foreign-controlled engineering construction firms more competitive in large, complex, resource development projects.
5. Ability to obtain export markets.	5. A few foreign-controlled firms and a number of Canadian-controlled firms export, but the overall level is low.
6. Ability to obtain "fair share" of domestic market.	6. Canadian-controlled firms weak or non-existent in some areas.
7. Tendency to import.	7. Foreign-controlled firms tend to import some or most of engineering services for major projects.
8. Support of local community.	8. Little difference.
9. Management autonomy.	9. Some foreign-controlled firms appear relatively autonomous, others have little autonomy.
10. Trend to increasing foreign ownership.	10. Foreign-controlled firms continue to dominate the large, complex resource development projects and the number of these projects is rising.
11. Attitude to free trade.	11. Canadian-controlled firms want more government intervention.
12. Attitude to screening legislation.	12. Little direct comment; most A & E firms too small to be affected by proposed legislation.
13. Attitude to non-discriminatory government regulation of corporate behaviour.	13. Canadian-controlled and some foreign-controlled firms want regulations, incentives to keep work in Canada.
14. Attitude to discriminatory government regulation of foreign-owned firms.	14. Emphasis by both was on getting firms to do their work in Canada.
15. Attitude to use of "moral persuasion" by government.	15. Canadian-controlled firms favour this method of increasing opportunities for Canadian-controlled firms.

they do not have the financial resources to take the business risks involved and/or they do not have the necessary construction and implementation expertise in addition to the required engineering design know-how

- there has been, and continues to be apparently, a tendency for foreign-controlled firms to purchase engineering services from foreign-controlled engineering firms who undertake some or much of their engineering work in the home country; this is particularly noticeable in the mining industry.

There has been a similar tendency for foreign architectural firms to dominate the conceptual design of large, high-rise buildings, such as Place Ville Marie, the Toronto-Dominion Centre, and Commerce Court. Owing to requirements of the architects' Associations, the foreign firms have worked in association with Canadian architectural firms which have carried out the production design for these buildings. In many cases, the foreign architectural firms have been retained by Canadian clients for these buildings, apparently on the assumption that the foreign architects possess a greater level of experience and competence than Canadian architects for these very large buildings; this point was disputed by Canadian architects interviewed, who attributed the use of foreign architects to the desire of the client for an internationally-known "name" architect.

There was little or no behavioural difference between Canadian- and foreign-controlled engineering firms in the areas of research and development, labour relations, and support of the local community. The combined level of exports of engineering services for both types of firms was about 60 per cent of imports, and most exported services were to underdeveloped countries. Foreign-controlled firms basically

exported only when there was a "Canadian angle" or when their home offices were overloaded.

Foreign-controlled firms showed a greater tendency to import engineering services for major projects. Some foreign-controlled firms appeared to be relatively autonomous while others showed little autonomy from their head office.

Attitudes

In terms of attitudes, senior members of the Canadian-controlled firms studied and some of the foreign-controlled firms were in favour of government regulations and/or incentives to keep engineering work in Canada, whether by moral suasion or other means. There was little support for discriminatory regulations of foreign-owned firms, although some Canadian-controlled firms felt that this might be justified. Canadian-controlled firms were particularly strong on restricting the importation of engineering drawings and material into Canada. There was little interest in the need for screening legislation regarding takeovers by foreign firms; this probably reflects the fact that few such takeovers have occurred in the past few years and, in fact, that there has been a trend for a number of large firms, formerly foreign-controlled, to be acquired by their Canadian employees.

Potential Behaviour

At present, Canada has highly competent architectural and engineering consulting professions. As a developed and industrially advanced country, it might be expected that Canada should be enjoying

a positive balance of trade with respect to architectural and engineering consulting services. Many exports of services are to Third World countries and are often part of Canada's aid programs. In fact, however, from all available evidence, Canada seems to import almost twice as much architectural and engineering consulting services as we export and we have a particularly unfavourable trade balance vis-a-vis industrialized countries.

The reason most often advanced for the high import situation is that Canada does not have organizational and technical capability in all areas; furthermore, the small Canadian market for certain types of large specialized projects restricts our ability to develop the required capability for all projects. This logic must be balanced by two further considerations: first, as reported by a number of those interviewed, Canadians are not appreciated in their own land, and there has been a historical tendency by governments not to consider the positive benefits of fostering Canadian competence in given areas. The second reason is the basically continental outlook by the large subsidiaries of international corporations coupled with the high mobility of engineering teams, which lead to the importation of foreign, particularly American, engineering work.

The reason generally given for Canada's relatively low level of exports is that export promotion is very expensive and competition from the giant international firms is severe. Canadian-controlled engineering firms have not, in general, geared up to export their services. Foreign-controlled engineering consulting firms in Canada, with some exceptions, have not generally oriented their business development to the

export market. In addition, it appears that the tradition of government support of exports in the engineering consulting area has not been as strong as that in other countries.

The issue of foreign control of engineering consulting firms in Canada must be discussed within the import/export framework. Canada maintains a relatively "open" posture with respect to international engineering consulting firms and the free market thus works against the development of certain engineering skills in Canada. In a few important engineering areas, particularly petroleum and other large resource development projects, there may be about a half-dozen large international concerns which compete for projects in Canada and few, if any, Canadian-owned firms which have the specialized skills, number of appropriately-trained staff, and/or financial resources to compete effectively with them.

The free market tends to work against the development of Canadian engineering capability in these fields. The tradition, among most engineering firms working on remote projects, is to operate on a project basis, bring in skilled staff from other offices as needed, and ship as much of the engineering design work as possible to the most convenient office, often to head office. It is in the nature of engineering projects to operate on the basis of maximum utilization of one's own staff, preferably where they do not have to be relocated. Canadian firms do this to the extent feasible when working on projects in other provinces or countries, and unless otherwise compelled, foreign firms also operate in this way. It therefore seems likely that Canada will continue to have

major gaps in its engineering capability in the future and that our large negative trade balance in engineering services will continue and possibly increase as greater numbers of large, complex resource-based projects are carried out in Canada.

Policy Considerations

A basic choice for future government policy and Canadian professional orientation could be stated as follows: should Canada continue to allow the present market mechanism to work (e.g. to import engineering capability on the basis of "known" talent and experience) or should the country take steps to increase domestic engineering capability to provide opportunity for its citizens? Clearly, the Canadian-controlled engineering firms would benefit from the second alternative. It could be debated whether the country would benefit or not, although there would appear to be long-range benefits.

Based on the research and interviews, a strategy is put forward to achieve the second alternative.

It would seem possible to have access to foreign technology and expertise as required, but to control their input in Canadian projects. Canada will always have to draw up on some outside project organizational expertise, but could bargain more aggressively with the large international firm. Canada cannot hope to have the latest technology in all fields, but it could, at least, be brought into Canada on Canadian terms. Some possible procedures for exerting this control are discussed below.

The use of foreign engineering services by governments and corporations in Canada results in part from a perceived lack of

organizational and financial, as well as technical, expertise and resources of Canadian-controlled engineering consulting firms. It appears, then, that both the foreign engineer and his organizational/financial resources are hired as a package in some instances, particularly for large "turnkey" projects in which the engineering/construction firm takes on the responsibility of delivering a completed and operating facility for an agreed budget and within a specified period of time.

The A & E report discusses how foreign-controlled firms seem to have a substantial edge as engineering constructors. As a first step to make Canadian-controlled organizations more competitive, the following might be considered:

1. The engineering associations should seriously consider revising their professional stance on the question of engineering construction capability among Canadian engineering consulting firms. A change in attitude among Canadian professionals, as well as educational efforts (for example, the University of Windsor's new Construction Management Program), could lead to an increase in the organizational and construction capability of Canadian-controlled firms.
2. Changes should also be considered to increase Canadian capability of underwriting the huge business risks that must be undertaken for large projects. The area of financial instruments, both by the firms themselves and by financial intermediaries requires examination. Government assistance might be appropriate as guarantor in large project situations.

A second step in equalizing opportunities for Canadian firms to be hired by large client corporations could be a change in the organizational philosophy of the hiring corporation. There are many alternatives to the present practice of hiring a single foreign-based or foreign-controlled firm to undertake the total engineering, construction and project

management effort. The main policy that is suggested for consideration is the following:

- appropriate "moral suasion", by Cabinet level public representatives, of large corporations, especially foreign subsidiaries, at key points in the planning of large projects. Such moral suasion would be most useful in launching a process of seeking alternative organizational arrangements in order to maximize the use of Canadian capability. Government financing to split the learning curve costs with the corporation that is hiring the engineering consultants might also be considered
- for moral suasion to work properly the government must be very well informed. Canadian engineering associations should probably act as the intelligence network for government agencies, to alert them about prospective projects. If this informal technique does not work properly, then a more formal, compulsory review mechanism might be considered prior to all major engineering projects
- to undertake moral suasion from strength, government must have its own technical competence to bargain effectively with large organizations in attempting to achieve more use of Canadian capability. Secondly, the competence should include knowledge of the many possible organizational arrangements that must be examined to enable large and small units of Canadian engineering to be amalgamated for large projects. In some cases, consortia of Canadian- and foreign-owned firms can most effectively achieve the required project results while developing the desired domestic capability.

Governments in Canada can play other useful roles in stimulating the development of Canadian engineering competence and organizational ability. Several possible steps are as follows:

1. Government could take a more aggressive stance to support Canadian capability on international projects. This does not necessarily mean a higher financial contribution, although this should be examined. It could include using more political leverage and external aid to help Canadian firms, and perhaps to resolve certain potentially competing Canadian bids.
2. Government could increase the purchasing of Canadian engineering services to support Canadian capability, and subject themselves to the same review process (assisted, again by professional associations) that private companies might be subjected to prior to using foreign engineering services. The full economic and social implications (including lack of "fall-out" sales to Canadian firms, reduction in job opportunities, corporate and individual income taxes foregone, and increased welfare payments) should be considered by government when weighing whether to buy a major high technology product from a foreign-based or foreign-controlled firm or whether to buy or develop it in Canada.

There are examples, including several cases of government purchases, of the many positive benefits of fostering Canadian capability including the growth of skilled engineering employment in Canada and the "fallout" stimulus to technological innovation and economic development in this country and our ability to export engineering services. These include, in earlier years, hydro-electric power generation facilities and railway locomotives and rolling stock, and, more recently, nuclear power generation plants.

3. The government should continue to examine at the same time the impact of government in-house work on the ability of engineering consulting firms to grow, diversify and export their services. Consideration of the benefits to Canada of having strong commercial organizations competing in export markets should be included in any examination of government "make-or-buy" policies, i.e. whether engineering should be done in-house or by contract to engineering consultants.

A question which arises in considering these policy steps is whether we have the human resources to undertake projects in areas where we do not have as much experience as do foreign firms. To some extent, the required skills can be developed through adjusting higher education

programs, but better organization and utilization of the engineering talent we now have is also essential to implement these policy steps. Large project opportunities will assist in drawing together qualified individuals with similar experience elsewhere or from related fields. However, the key objective should be to keep the teams that develop from experience on large projects as "going concern" Canadian operations, rather than have them scatter to other organizations and countries, once the project is completed.

Appropriate
Government Level

The term "government" was used above in a generic sense without denoting whether the Federal or Provincial Government should be most involved in these potential areas of government intervention. Because architectural and engineering consulting services are national and international in terms of projects and manpower allocation, the Federal Government might be the most appropriate level for overall policies. However, the jurisdiction and concern are primarily provincial, and there are no indications that this may change in the short run.

Even in an area of obvious Federal concern - exports - some provinces (including Ontario) have begun to act with some good effect to promote export of engineering consulting services.* It is not that these efforts should necessarily be diminished, but they might, at

* For example, Ontario in one program covers certain costs in the preparation of proposals for foreign work and in another supports trade missions abroad; in addition, the Federal Department of Industry, Trade and Commerce has been increasing its support to consortia of Canadian firms seeking work abroad.

least, be better coordinated among provincial and federal organizations. (An example was given of a recent Ontario mission to Indonesia which was preceded by a Federal one and immediately followed by one from another province, thus confusing the Indonesians.)

Provincial governments may play a role in terms of moral suasion of large corporations. For example, the Alberta Government has been grappling with this issue with respect to the tar sands development. However, efforts to bargain with individual corporations may lead corporations to play one province off against the other. The provinces might establish for themselves an inter-provincial mechanism to ensure that this does not happen with respect to engineering consultants.

The Province of Ontario could take the lead in developing a more national approach, as appears to be desired by architects and engineering consultants. Ontario could begin by examining how large corporations may be dealing with other provinces in this respect.* A prime consideration in such an initiative is the concern for a more even regional distribution of engineering services that Ontario would have to display to assume a credible role. Perhaps there might be a better system of regional pools of talent (e.g. oil extraction and processing in Alberta, mining in B.C., etc.), and at the very least, concrete efforts to employ local engineering consultants.

* Alberta, for example, was trying to have Syncrude's engineering for tar sands development primarily Albertan, but Syncrude's resistance was apparently partly on the grounds that the engineering expertise does not exist in Alberta.

Foreign Ownership
Versus Corporate Behaviour

A set of "good corporate citizen" criteria could be developed for foreign-controlled engineering firms operating in Canada. The essential criteria might be as follows:

- development of a permanent engineering staff and commitment to operations in Canada
- international manpower balancing that takes into account the need for Canada to retain indigenous engineering pools or teams relatively intact
- development of specifically Canadian office expertise for export from the Canadian office
- production work on major projects to be done in the Canadian office or subcontracted to Canadian firms where practical.

If the foreign-controlled firm "qualified" according to established good corporate citizen criteria, then it would also qualify to be treated as such by government. Therefore, the more the government plays a strong role in promoting Canadian-controlled engineering consulting firms and foreign-controlled firms that fulfil the criteria, the more leverage government will have to foster Canadian capability.

Policy decision-making and control over a foreign-controlled firm remains largely external to Canada as has been described in the Architects and Engineering Consultants report. Therefore, the government might consider including as one criterion that the firm progressively become Canadian-owned. It is suggested that there is no universal answer to whether Canadian ownership would produce the desired build-up of Canadian engineering consulting capability. Each case would have to be judged on its own merits with the above criteria as the primary consideration.

Should Canadians be encouraged or coerced into progressively buying out their foreign owners, the changes in the Canadian office would be difficult to predict. Foreign-controlled firms whose Canadian employees have bought them out appear to have retained some of the advantages of the former connection with the foreign firm. They can still draw upon these foreign resources, although in some cases they may have to give up marketing rights to certain parts of the world. Criteria for good corporate behaviour would again be of assistance in drawing conclusions as to the benefit to Canada in these cases.

The effect of Canadian ownership might be to make a fundamental change in the operations of the foreign-owned engineering consulting firm. As a wholly-owned subsidiary, the foreign-controlled firm is treated as a branch of the sales force and as a resource centre for manpower allocation. Once majority ownership is given up, then the firm in effect will only be in association with the parent firm. Therefore, there would not be the same incentive at head office to bring key foreign personnel to bear upon Canadian engineering problems, nor would there be an incentive for the Canadian office to have the engineering work done outside the country. Canadian ownership, consequently, might lead to the firm's being pulled out of the international orbit, with more reliance on its own technical and organizational/financial capabilities.

Theoretically, Canada could utilize individual foreign experts to complement home-grown technical and organizational capabilities. However, some projects will demand organized capability such as that

offered by the large international firms. Canada, until it develops a substantially larger market for engineering services, may not be able to generate the 200- to 300-men pools of specialized talent in one firm necessary to carry out the large, specialized projects. However, steps, such as those outlined above, could help build towards a stronger Canadian-based and largely Canadian-controlled capability to carry out such projects.

THE AUTOMOTIVE PARTS INDUSTRY

As shown in Exhibit 12, overleaf, some auto parts firms manufacture parts only for the Original Equipment Market (OEM), that is, for new vehicles, while others manufacture for the After Market (AM) only, that is providing parts to replace worn out parts on vehicles that have been sold. Still other auto parts manufacturers provide for both the Original Equipment and the After Market.

The Original Equipment Market is, of course, dominated by the big four automobile manufacturers, all of whom are foreign-controlled. They also dominate a considerable portion of the After Market through their approved dealers, although large manufacturers can also sell to retail outlets, specialist auto repair organizations, and other wholesalers and distributors which serve the service station market.

For Canada, and particularly for Ontario, the auto parts industry is a vital and large part of secondary manufacturing activity. The industry is a major employer, and a user and developer of important



manufacturing processes and technologies. It is in Canadian interests to maintain the competitiveness and prosperity of the auto parts industry. The level of employment in the industry, the importance of the industry to Canada's balance of payments with the United States, and the multiplier effect of its activity all point to the need to maintain the industry in a viable and healthy state.

Seven automotive parts firms were subjected to detailed study. Three of the seven firms were Canadian-controlled and one of these three was a subsidiary of a major Canadian-controlled corporation with wide ranging business interests. Three other firms were foreign-controlled, one of which was a small firm, and one of which was very large by Canadian standards. The seventh firm, although technically foreign-controlled, is in practice subject to 50:50 control of all major policy decisions.

Other information on the industry was obtained as follows:

- interviews with executives of three other firms in the industry
- interviews with an industry association representative and a trade union representative
- interviews with representatives of the Federal Government Department of Industry, Trade and Commerce
- analysis of statistical information published by Statistics Canada and other sources of such information
- review of particularly relevant reports including: the Sixth Annual Report of the President of the United States to Congress on the operation of the Automotive Products Trade Act of 1965, published in February, 1973; the United States-Canadian Automobile Agreement, by Henrik O. Helmers, 1967; and the Canada-U.S. Automotive Agreement: An Evaluation, by Carl E. Beigie, 1970.

Comparison of Existing
Behaviour and Attitudes

The automotive parts industry in Canada is an integral part of an industry which is North American in terms of markets, ownership and control, and business attitudes. It is a highly competitive industry and, in general, the behaviour of firms in the industry and the attitudes of executives do not differ greatly according to whether the firm is foreign- or Canadian-controlled, as summarized in Exhibit 13, opposite.

The behaviour of auto parts firms with regard to financing, community involvement, and exports to countries outside of North America does not differ significantly as a result of control characteristics. The extent and nature of the control of firms does influence the degree of local management autonomy of a Canadian subsidiary. However, the extent of local autonomy enjoyed by foreign-controlled subsidiaries varies widely, and the management of some foreign-controlled firms seems to enjoy greater autonomy than the management of some Canadian-controlled firms. Management of the Canadian-controlled subsidiary can expect the same type of business decisions and the same degree of control by the parent corporation as the firm which is foreign-controlled. There is no evidence, for example, that a Canadian parent corporation or board of directors would be more lenient with regard to lay-offs during slow-downs in the industry than would its foreign counterpart.

Local autonomy of firms in the auto parts industry can be expected to be subservient to corporate priorities and business opportunities particularly as parent companies diversify into different

EXHIBIT 13GENERALIZED BEHAVIOUR AND ATTITUDE
COMPARISON FOR AUTO PARTS INDUSTRY

Type of Behaviour/Attitude	Behaviour or Attitude of Canadian-Controlled Versus Foreign-Controlled Firms
1. Pollution abatement.	1. No difference in response to regulations.
2. Research and Development.	2. U.S.-controlled firms use corporate facilities and have less need to provide R & D in Canada. All firms have access to PAIT and IRDIA programs. No difference in use of programs.
3. Labour relations.	3. No difference in behaviour from Union viewpoint but some foreign-controlled firms are more experienced bargainers because of access to corporate specialists.
4. Ability to serve domestic market.	4. All serve international (Canada and U.S.) market as one market. No difference in behaviour.
5. Ability to obtain export markets.	5. Both export little if any of production to countries outside North America. Some marketing advantages to foreign-owned firms based on Detroit contacts with auto manufacturers.
6. Ability to obtain "fair share" of domestic market.	6. Currently equal; some concern among Canadian-controlled firms that they may be at a disadvantage in the future.
7. Tendency to import.	7. Foreign-controlled firms may be more prone to import machinery and equipment.
8. Support of local community.	8. No difference - largely depends on personal attitude of local president.
9. Management autonomy.	9. Behaviour can vary widely. Autonomy a function, inter alia, of financial success and local management strength. Foreign-controlled firms subject to external "national interest" pressures.
10. Trend to increasing foreign ownership.	10. Not discernable, but statistics inadequate. Appears to maintain high (85% - 95%) level.
11. Attitude to free trade.	11. No difference - approve auto pact approach.
12. Attitude to screening legislation.	12. No difference - dislike control on take-overs.
13. Attitude to non-discriminatory government regulation of corporate behaviour.	13. No difference - prefer minimum government interference.
14. Attitude to discriminatory government regulation of foreign-owned firms.	14. No difference - against government programs which discriminate and interfere with the North American nature of the Auto Parts industry in Canada.
15. Attitude to use of "moral persuasion" by government.	15. No difference - would respond to pressure in line with business and social responsibilities which are unlikely to differ because of control.

industries and develop subsidiary activities in a wider range of countries. In practice, the behaviour of the firms examined suggests that the growth and prosperity of the auto parts industry in Canada over the last eight years has provided attractive investment opportunities in Canada for foreign-controlled and Canadian-controlled firms alike, and local management has had little if any difficulty in obtaining approval for expansion plans. There is no guarantee that this will continue to be the case in the future. Firms controlled by parent corporations in the United States may be influenced by political pressures on the parent corporations.

There is evidence that foreign-controlled firms have benefited from their connections with a large parent corporation in obtaining an entry into the Detroit based purchasing divisions of the major automotive manufacturing firms. Although most firms, foreign-controlled and Canadian-controlled, have established sales offices in Detroit the Canadian-controlled firms may have been at some disadvantage compared to their foreign-controlled competitors. This disadvantage was felt most strongly in the years immediately following the signing of the Canada-U.S. Auto Pact in 1965. The future effect of this advantage enjoyed by foreign-controlled firms is difficult to estimate. It must be assumed that the influence of a large auto parts parent corporation in the United States with the automotive manufacturers will continue to provide some advantage to foreign-controlled firms compared with Canadian-controlled firms, particularly the smaller firms.

Many firms in the auto parts industry do little if any research and development. Often such effort is of limited value because the

automotive manufacturer defines the product to be manufactured and the auto parts manufacturer acts as a "jobbing shop". Research and development is more important in the case of complex products requiring high technology. Some Canadian- and foreign-controlled firms are operating in this high-technology area. Most foreign-controlled firms have access to central corporate research and development activities centered outside of Canada. Because of the large size of the parent corporation these facilities can be expected to exceed similar facilities available to Canadian-controlled firms; related to this, the foreign-owned subsidiaries appear to carry out somewhat less research and development in Canada than do comparable Canadian-owned firms.

It is difficult to measure or quantify the extent to which the Canadian-controlled firm is at a disadvantage with respect to research and development compared to the foreign-controlled firm. No examples were identified of business being lost by a Canadian-controlled firm to a foreign-controlled firm because of product or process advantages which resulted from the foreign-controlled firm's access to extensive research and development facilities. This possible disadvantage is alleviated to some extent by the availability of government programs such as PAIT and IRDIA, and these programs are used by many firms, regardless of their control. Although precise figures are not available, an examination of the products of the firms in this industry suggests that the high value technology based products are generally manufactured by firms which are foreign-controlled. To a large extent this would appear to be due to the historical development of the industry in the United States, and to

the expansion of specialist firms manufacturing products such as wheels, frames, brakes, etc. through the development of subsidiary companies in Canada and other countries. Without major research and development effort, Canadian-controlled firms appear unlikely to be able to enter or maintain themselves, in this "high technology" section of the auto parts market.

The Effect of Foreign Control

In the auto parts industry the extent of foreign control, measured by dollar investment, is in the range 85 per cent to 95 per cent. This high percentage of foreign control is not a recent development, and extends back to the period prior to the 1965 Auto Pact. There is limited data to indicate whether this percentage is increasing or decreasing. We conclude on the basis of our examination that there has been no significant increase in the percentage of foreign control in recent years, but executives of foreign-controlled firms showed interest in making acquisitions, although not necessarily confining this activity to the auto parts industry. There is evidence that Canadian-controlled companies are equally acquisition-minded (see Exhibit 11, Page 24 of the Auto Parts Industry report).

In the past, and particularly since the Auto Pact in 1965, the extent of foreign control in this industry appears to have had a significant impact on productivity and competition. This is because foreign-controlled firms have been able to import from their parent corporation skilled personnel, manufacturing technology, and investment capital. This infusion, combined with the market impact of the Auto Pact, has

created a highly competitive climate in the industry and Canadian-controlled firms have largely responded favourably to these influences; in order to survive, they have frequently matched their foreign-controlled counterparts in terms of productivity, cost controls, and quality. Having regard for the performance of the industry, particularly in the period 1961 to 1969 when the motor vehicles and parts industry achieved an increase in productivity of 199 per cent, and taking into account the growth of exports of parts to the United States and its beneficial effect on Canada's balance of trade with that country, it must be concluded that some aspects of foreign control have been instrumental in creating considerable economic benefits for Ontario and Canada as a whole. However, Canadian-controlled firms now appear capable of developing their own technology improvements on a par with their foreign-controlled competitors. Future benefits which may be obtained by the infusion of technology through foreign control are likely to be less important to the economy than they were immediately following the signing of the Auto Pact.

Set against these advantages of foreign control in the industry is the extent and nature of decisions made by parent corporations outside of Canada which may operate against Canadian interests. Such decisions may relate to:

- lay-offs and employment practices
- the transfer of earnings from Canada to the parent corporation
- the sourcing of production for exports

- requirements to purchase machinery, equipment and supplies from outside Canada
- the employment of foreign nationals in senior positions
- location of R & D activities outside of Canada.

Except for the question of employment to foreign nationals the study produced no evidence to support the view that discrimination against Canadian interests in these ways is commonplace. There was no evidence that foreign-controlled firms received direction from corporate level with regard to lay-offs, although they do receive assistance and direction in associated areas, particularly with regard to union negotiations. The most subordinated foreign-controlled firm had the best record with regard to lay-offs.

Similarly, there was no evidence that foreign-controlled firms were forced to repatriate earnings at the expense of further expansion and investment in Canadian operations. Although earnings may often exceed the funds required for capital investment and the surplus be repatriated, there was no suggestion that such repatriation (presumably for investment outside of Canada) occurred when competitive investment opportunities existed in Canada.

The evidence regarding the sourcing of production for export is less certain. The level of exports from the typical auto parts firm to countries other than the United States is so low in relation to total output, and so little attention is paid to such export opportunities by most firms, that the channeling of export opportunities to foreign-based

plants rather than Canadian-based plants may occur but be unknown to local Canadian management of foreign-owned firms. However, an examination of the relationship between exports and total production of the auto parts industry in the United States, compared with the same relationship in Canada, indicates no significant difference in export performance by the two countries.

The proportion of machinery and equipment expenditures spent in Canada, as against the importing of equipment, varies considerably from firm to firm. Data obtained in the study suggests that foreign-controlled corporations may be more likely to purchase machinery and equipment from outside of Canada, possibly in conjunction with the parent corporation, but the information available is so limited as to make this a very tentative conclusion. It was clear from discussions with one foreign-controlled firm that the firm had made every effort to purchase equipment in Canada in spite of the fact that for certain specialized equipment Canadian manufacturing capability was considered to be questionable.

It is clear from the study that the employment of foreign nationals in senior positions is more likely to be found among foreign-controlled firms, and these appointments will frequently be made at the instigation of the parent company. The positive aspects of such behaviour - the value of importing special skills not available in Canada - has been eliminated by the development of the industry in Canada in the last eight years, and the availability, in general, of Canadians or Canadian residents with comparable skills. However, there is no evidence to support a policy of erecting barriers to the transfer of U.S. nationals into Canada, so

long as Canadians have a comparable ease of access to positions in the U.S.A.

Expenditures on research and development varied widely among the companies studied and appeared to depend on a variety of factors, including corporate size and product line, rather than country of ownership. While it could not be determined conclusively, Canadian-controlled companies in some product lines appeared to conduct as much research and development as their foreign-controlled counterparts in comparable business situations. Nevertheless, in the overall North American context, partly as a result of the "Big Four" auto assemblers' leadership, indications are that proportionately more research and development is being conducted in the U.S. than in Canada.

Potential Behaviour

A real concern must exist regarding the possible impact of foreign control if other influences are brought to bear on parent corporations outside of Canada, leading them to make decisions regarding Canadian subsidiaries other than those that they would make under normal business conditions. Such influences include political pressure to increase employment in certain areas of the United States, financial inducements to set up manufacturing activities in other countries rather than in Canada, and political pressures to restrict the imports into the United States of auto parts from Canada for balance of payments considerations. There is a strong feeling in the auto parts industry in Canada that such influences have increased in the last one to two years.

Assuming that Canadian auto parts firms can remain competitive with United States-based auto parts firms, in terms of productivity, price, and quality, and by the necessary degrees of research and development, then foreign control over much of the auto parts industry is unlikely to markedly interfere with the Canadian trade balance in this industry so long as North American trade in auto parts is relatively free and unrestricted.

The only firm example of such influences (discussed on page 43 of the Auto Parts Industry report) which was obtained in the course of the study was a case of discrimination against Canadian production by a United States-based automotive manufacturer, rather than by the parent corporation of the auto parts firm operating in Canada. All of the industry's customers for original equipment are foreign-controlled and could, from time to time, take a similar position. There was a strong feeling among executives in the industry that United States sentiments with regard to the Auto Pact had changed significantly from a readiness to buy Canadian parts to a coolness towards importing Canadian products. The companies examined, however, were unable to quantify the extent or effects of this change in attitude.

To some extent the change in attitude reflects the success of both foreign-controlled and Canadian-controlled auto parts companies in Canada in the years since the Auto Pact. The 1965 Auto Pact was not unanimously approved by interested groups in the United States, and improvement in balance of trade for Canada in automotive parts has led to strong representations for action to improve this balance in favour of

the United States. It is difficult to attribute this situation to the extent of foreign control in the Canadian industry. If the auto parts industry in Canada were 100 per cent Canadian-controlled, and equally successful in exporting products into the United States then the resulting favourable balance of trade in auto products would have to be assumed to be at least of as much concern to the United States as it is under actual present conditions. It also seems likely that, in this industry, political pressure on the foreign-controlled automobile manufacturers would be as effective in deterring Canadian-made auto parts imports as would pressure on the more numerous parent offices of foreign-controlled subsidiaries in Canada. That is, foreign ownership of the end-product manufacturers is probably considerably more significant than is foreign ownership of the auto parts firms themselves, in terms of behaviour and future ownership trends and/or pressures in the future.

Policy Considerations

Where government pressure on foreign parents is likely to be most important in the future is on the development of exports. Under the influence of the DISC program or in response to other pressures it would be relatively easy for a parent corporation to regard its Canadian subsidiary as a captive supplier to the Canadian automobile market and concentrate on developing export business from its United States-based plants. Such developments could hold back the development of exports to countries outside of North America by firms operating in Canada. In any future Auto Pact renegotiations some guarantees against this possibility could be an objective of Canadian negotiation, subject to further

studies regarding the nature and extent of export potential in this industry.

Reduction in the Extent
of Foreign Control

The Canadian auto parts industry is predominantly foreign-controlled, and the industry would object to measures which attempted to achieve a reversal of this situation by compulsory means. Compulsion to sell to Canada or to Canadians would thus alienate the industry, and increase the uncertainty with regard to future foreign investment in, and purchases from, auto parts firms operating in Canada. The acquisition of foreign-controlled firms at market value by government agencies, e.g. the Canada Development Corporation, would probably be acceptable in principle, providing it could be supported in terms of the availability of Canadian capital which would be necessary, and in terms of the management direction which would also be required.

The large amounts of both public and private capital required to increase the extent of Canadian ownership of the auto parts industry may be more beneficially deployed in obtaining control of other industries, or of making investments in new industries. This study has revealed no basis for making the Canadianization of the auto parts industry a high priority. The two main alternatives are to acquire control of what already exists, or to establish policies which will assist Canadians to acquire and maintain control of future growth areas of the industry. It is therefore important to devise policies which lead to an adequate level of capital formation, and the investment of capital in Canadian-controlled enterprises with significant growth potential in the auto

parts industry. The industry is still a long-term growth industry, and one in which new products and new technology should be anticipated. The development of the rotary engine, computerized ignition and other systems, and the possible future development of electrical powered cars and revolutionary new public transit systems suggests that the dynamics of the industry will provide new areas for growth, and hence new areas for Canadian investment. Complete foreign ownership of the "Big Four" auto manufacturers, however, means that in the absence of major Canadian government programs, the initiative for such development will tend to come from the United States; the resulting "demand pull" for technological innovation by auto parts manufacturers will therefore continue to be felt more strongly in the United States than in Canada. The development and control in Canada of new end-product manufacturers in this field should therefore receive serious policy consideration also; this would undoubtedly require active initiative and support by government owing to the present dominant position of the "Big Four" auto manufacturers.

The existing capability of Canadian-controlled auto parts firms to capitalize independently on such developments is limited, since the necessary research and development may well be beyond the resources of the programs of most, if not all, of these firms. Government financial support of research and development programs will therefore be necessary to ensure a satisfactory share of future growth for Canadian-controlled firms. To be fully effective such programs would need to provide assistance in the application of new technology, including assistance in marketing and production.

On the basis of the situation as described above, two complementary policies could be considered: (1) government policies to ensure the continuation of the restricted free trade in auto parts; and (2) government policies to ensure that Canadian-controlled firms can obtain the necessary support in their attempt to remain competitive, particularly in relation to the need for research and development in high technology product areas. The present disadvantage suffered by Canadian-controlled companies with respect to research and development will adversely affect the competitive strength of these companies in the long term. Without adequate research and development activity Canadian-controlled companies in the industry may be forced away from the manufacture of the more complex and technical products into the less complex and lower value products where research and development is less important. Establishment of a significant Canadian-controlled end-product manufacturer in this field (possibly for electrical urban cars, personalized rapid transit vehicles and/or "dual-mode" vehicles serving both functions), while requiring major initiatives, would probably have more impact in assisting Canadian-owned auto parts manufacturers in the high technology products than would further research and development grants to them.

The industry is heavily reliant on the United States for its market, and for a number of years the United States has pressed for renegotiation of the Auto Pact. The Canadian industry should therefore consider the possibility of establishing new growth areas in markets outside of North America. The initiative for diversification of the industry's markets may be dependent on government encouragement, unless

restriction of the U.S. market forces auto parts firms in Canada to look for markets outside of North America.

Possible Government
Policy Initiatives

It is in Canadian interests to maintain the competitiveness and prosperity of the auto parts industry, regardless of ownership. In order to achieve this objective government policies both at provincial and federal levels should be designed to assist the industry in those areas most critical to its continued success. The Canadian Government should be alert to changes in attitude on the part of the United States, and develop well researched and properly conceived policies to counter United States attitudes to the Auto Pact, legislation such as the DISC program which may be harmful to the auto parts industry, and the less definite, but still potentially unfavourable trend toward protectionist policy in the United States. Canadian policy should be designed to maintain the free trade aspects of the 1965 Auto Pact but with a more flexible approach to the safeguards regarding Canadian value added.

Present policies at federal and provincial levels with regard to export activities should be reviewed in the light of the particular problems of exporting auto parts outside of North America. The objectives of such a policy should be to reduce the dependence of the Canadian auto parts industry on the United States, while at the same time improving the balance of trade in auto parts with countries outside of North America.

Existing government policies which support research and development should be reviewed in order to identify ways in which greater support

can be given to firms carrying out research in high technology areas. Establishment of end-product manufacturers in this country under Canadian control could assist Canadian-owned and -based auto parts enterprises significantly in terms of product development, marketing, growth and diversity of their operations in Canada. The Government of Ontario initiatives in the area of Intermediate Capacity Rapid Transit systems are very important in this regard.

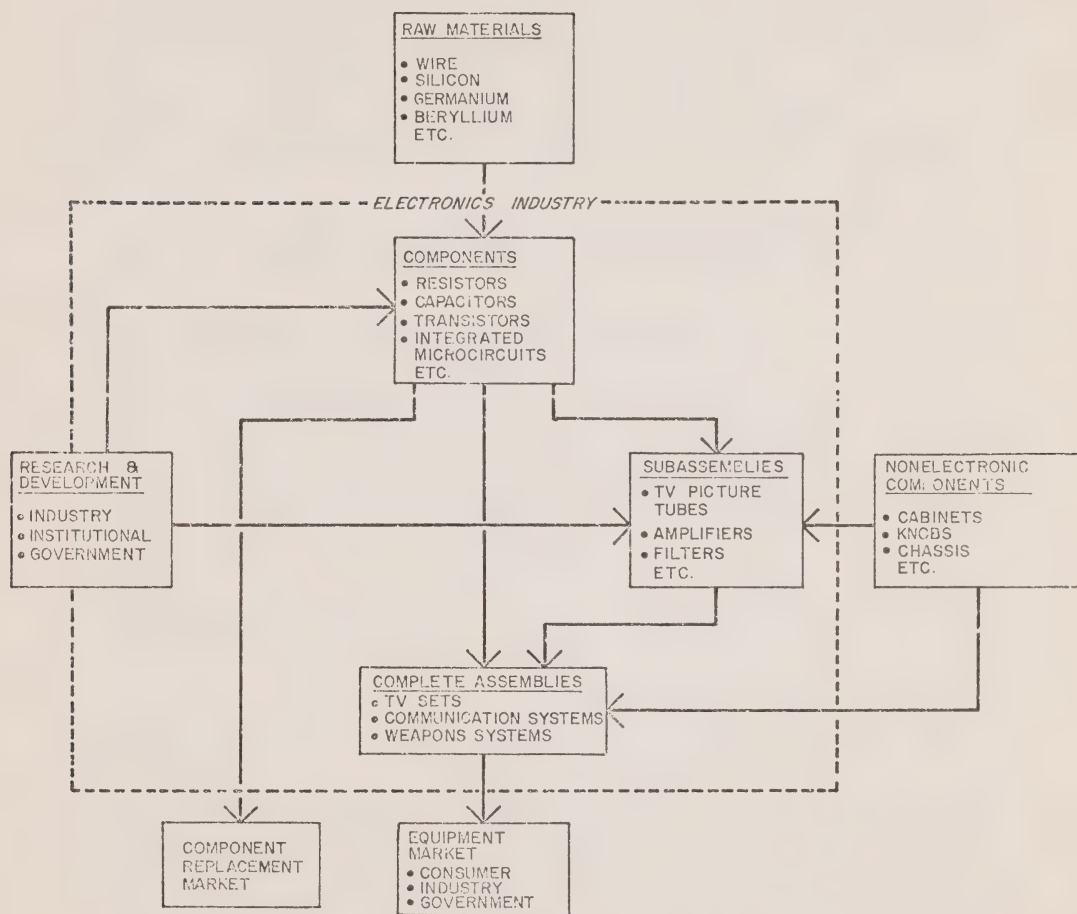
Increased Canadian control of the industry should be based on ownership acquired under normal market conditions. Such control will be dependent on the investment of risk capital. Policies should be devised which, in the long run, can influence the degree of control of the auto parts industry exerted by Canadians, by the development of a larger capital base in Canada and the investment by public agencies or by private individuals in Canadian-controlled firms which have considerable potential in areas of new technology and new products.

THE ELECTRONICS INDUSTRY

As illustrated in Exhibit 14, overleaf, the electronics industry is a high technology industry providing a range of products for government, industry and consumers at large. In this study, we focus upon two basic types of products: consumer products, such as radio and T.V. sets; and communications products used by government and industry for various types of interaction at a distance and, in particular, for the defence industry.

Electronics products can be found in such diverse applications as home entertainment, personal and business communications, road and

EXHIBIT 14

STRUCTURE OF ELECTRONICS INDUSTRY

air traffic control, navigation aids for ships and aircraft, weaponry and communications systems for national defence, medical research and diagnosis, education, hotel and airline reservation systems, industrial processing and manufacturing control systems and components of other manufactured products such as electronic ignition systems for cars.

Because of the wide variety of products produced, including components, sub-assemblies and complete assemblies, the range of sizes and characteristics of firms in the industry is extremely wide, and this must be borne in mind when interpreting the results of the study.

The electronics industry was selected for study because of its importance to society as indicated above, its extremely rapid growth and the expectation that this will continue, its importance as an industry producing technological innovation which sparks development and growth in other, related industries, its importance as an employer of over 50,000 Canadians with an annual production in excess of \$1 billion, and the fact that there is a significant and apparently growing level of foreign ownership in the industry.

Four electronics companies were selected for detailed study: two foreign-controlled and two Canadian-controlled. Each company had its Canadian head office in Ontario or at least substantial operations in the Province and they represented a mix of firms in the medium to large size category with product lines including both consumer and industrial electronics products. They included firms that specialized in electronics and firms whose electronics division was only a small part of the total business.

Additional information on the industry was obtained from the following sources:

- interviews with the chief executive officers of four other electronics companies, two Canadian- and two foreign-controlled
- interviews with officials of the Electronic Industries Association of Canada (EIAC)
- interviews with union officials of one of the major unions in the industry
- interviews with officials of the Federal Department of Industry, Trade and Commerce, other Federal departments, and the Ontario Ministry of Tourism and Information
- analysis of statistical data from Statistics Canada and related sources
- review of other relevant reports prepared by the Federal Government, business service agencies, the Science Council of Canada, universities, the U.S. Department of Commerce, the U.S. National Science Foundation, the Electronics Association of Japan, and general industry and business periodicals.

Comparison of Existing Behaviour and Attitudes

It is very difficult to discern behavioural differences in most respects between Canadian- and foreign-controlled companies in the electronics industry because of wide variations in the nature of business that each company is engaged in. As a result, many types of behavioural differences cannot be directly attributed to ownership. Some behavioural differences which did come to light, either among the sampled companies or among other companies about which some information was gathered, include:

- the tendency of some foreign-controlled companies to use basic designs developed by the parent and to concentrate research and development activity on devising means of efficiently scaling down production runs. This tendency is particularly prevalent in the consumer products area
- the tendency among some foreign-controlled companies to import components and sub-assemblies to a greater extent than do Canadian-controlled companies, a tendency that is due, in part, to the use of imported designs
- the tendency of foreign-controlled companies to concentrate their development of new products in lines in which the parents show no particular interest or to have the onus of demonstrating why a product should be developed in Canada
- the tendency of some foreign-controlled companies to obtain senior executives from their parents
- the tendency of foreign-controlled companies to move toward more and more integration with their parents through increased liaison and head office control over decision making
- the tendency of Canadian-controlled companies to set up subsidiaries abroad, a tendency not shown by foreign-controlled companies.

These and other behavioural comparisons are summarized in Exhibit 15, overleaf.

The Canadian electronics industry has a very considerable and growing foreign ownership component although it is still considerably lower than that in certain other "high technology" industries. Perhaps this is partly due to the low involvement of multinational companies in this industry in the United States compared with that in other high technology industries as well as the U.S. anti-trust decree which ensured Canadian ownership of Northern Electric.

EXHIBIT 15

GENERALIZED BEHAVIOUR AND ATTITUDE
COMPARISON FOR THE ELECTRONICS INDUSTRY

Type of Behaviour/Attitude	Behaviour or Attitude of Canadian-controlled Versus Foreign-controlled Firms
1. Pollution abatement	1. Not applicable
2. Research and Development.	2. Important factor in this industry; some foreign-controlled firms are very active and demonstrate that foreign ownership need not reduce R & D effort although level of activity may largely depend on availability of government assistance. Other foreign-controlled firms rely heavily on developments of parents.
3. Labour relations.	3. Little difference in recent years, foreign-controlled firms having tended to increase their autonomy.
4. Ability to serve domestic market.	4. No difference except that access to technological developments of parents enables some foreign-controlled firms to establish new lines in certain product areas more easily than Canadian-controlled firms could.
5. Ability to obtain export markets.	5. In certain product areas exports are high and in others they are low, regardless of ownership.
6. Ability to obtain "fair share" of domestic market.	6. Penetration of consumer products segment by Canadian-controlled firms is lower than in other segments. Imports account for large portion of domestic market.
7. Tendency to import.	7. Some foreign-controlled firms have a greater tendency to import components and sub-assemblies.
8. Support of local community.	8. Wide variation with community size and importance of company within it. Some tendency for foreign-controlled firms to be more cognizant of subject.
9. Management autonomy.	9. Behaviour varies, degree of autonomy often being related to financial success and local management strength. Trend toward reduction in autonomy.
10. Trend to increasing foreign ownership.	10. Steady trend toward increasing foreign ownership. Currently under 50%.
11. Attitude to free trade.	11. No difference due to ownership. Depends on product lines, reaction being relatively favourable for specialized products and unfavourable for mass production items.
12. Attitude to screening legislation.	12. No difference. Reaction ranges from mildly in favour to major concerns, regardless of ownership.
13. Attitude to non-discriminatory government regulation of corporate behaviour.	13. No difference. General preference for keeping government interference to a minimum, but would welcome emphasis on "buy Canadian".
14. Attitude to non-discriminatory government regulation of foreign-owned firms.	14. Beyond general reaction against government interference, some Canadian-controlled firms would favour positive steps to improve their situation rather than control of foreign-owned operations.
15. Attitude to use of "moral persuasion" by government	15. No definitive reaction.

Attitudes

All of the executives interviewed considered that foreign ownership, in one way or another, was a current problem in Canada, and all expressed an interest in the steps that might be taken to deal with it. Generally speaking, as might be expected, the executives of foreign-controlled companies favoured control of behaviour as opposed to ownership, particularly in the secondary manufacturing sector. In most instances, executives of Canadian-controlled companies considered that control of the expansion of foreign ownership and the stimulation of the development of Canadian-owned enterprise was more important than did the executives of foreign-controlled companies.

Some other views of executives of foreign-controlled companies were:

- that the investment of foreign capital in secondary manufacturing in Canada has been and will be beneficial and that foreign-controlled companies can carry on business as much to the advantage of Canada as can Canadian-controlled companies. The latter point is borne out by our research on the electronics industry which did identify examples of such companies. However, there are other examples of foreign-controlled firms which do not bring much benefit to Canada
- that requiring a Canadian minority interest in foreign-controlled companies would not be of advantage to the potential Canadian shareholders. If the object is to increase Canadian ownership in the industry, it was suggested, a better way might be to encourage the formation of joint ventures between foreign-controlled and Canadian-controlled companies
- that it may not matter whether concerted effort is made to discourage foreign investment in the industry, since it is already too late. This is because, in the view of some, the opportunities for

investment in other countries are greater than they are in Canada. As a result, parent organizations will tend to undertake more of their future investment projects in countries other than Canada.

Other Attitudes

Some other attitudes expressed were:

- executives of Canadian- and foreign-controlled companies contend that the industry is dependent upon the relative value of the Canadian dollar because of its dependence upon foreign trade in both directions. An example was quoted of a company dropping a product line because, it was said, the rise in the value of the Canadian dollar effectively cut off the potential for export. It was suggested that raw materials production involves fewer jobs per dollar of output than does secondary manufacturing and therefore that some restraint on the export of raw materials would increase the potential for exports of secondary manufacturing by reducing the pressure on the Canadian dollar.
- executives of Canadian- and foreign-controlled companies consider that Canada should adopt a coordinated set of policies and programs to maintain and develop secondary manufacturing particularly in high technology areas. Our competitive position is relatively weak because other countries have such policies and programs and because of the comparatively small scale and fragmentation of the Canadian electronics industry.
- responsible Canadian companies should work toward at least partial Canadian ownership. This is in contrast with the view mentioned above that partial Canadian ownership would not be of advantage to the Canadian shareholders. Both of these views were expressed by executives of foreign-controlled companies.
- Canadian ownership of a company could provide a competitive advantage to a company in view of the developing attitudes concerning this subject on the part of the Canadian public. This view was given by an executive of a foreign-controlled company.
- small Canadian-owned companies experience difficulty in obtaining funds for expansion whereas foreign subsidiaries can draw on the resources and credit-rating of their parent organizations. Although some executives of larger Canadian-owned companies did not admit a disadvantage in

this regard, it is clear that the resources of the parent are not ignored even when large foreign-controlled firms seek funds. Dun and Bradstreet reports clearly spell out the owners of subsidiaries and often provide data on the parents' operations and on the relationships between parents and subsidiaries.

- the industry in Canada suffers from major disadvantages relative to the industry in other countries. This view was expressed by many executives of foreign- and Canadian-controlled companies. The Canadian-controlled firms did not generally consider that they were at a disadvantage in relation to foreign-controlled Canadian competitors nor did the executives of foreign-controlled firms consider that their position was particularly advantageous.
- the official policy of the United Electrical Radio and Machinery Workers of America, one of the strongest unions covering employees in the electronics field, includes promotion of a self-sufficient Canadian industry, and encouragement of the growth of Canadian-controlled companies (as opposed to "buying back" the foreign-controlled companies). This position would seem to illustrate that the chief concern of union positions is to protect the industry in Canada, rather than alter the labour negotiation behaviour of the foreign-controlled companies.

Potential Behaviour

The electronics industry is international with intense competition among producers all over the world. The Canadian industry has sustained growth in production and has developed export markets in the face of world competition. However, imports of electronic equipment have been growing at a slightly faster rate than exports and are currently more than twice the level of exports.

The position of much of the Canadian industry is rather unfavourable as compared with its world-wide competitors. It neither has the scale of markets such as the U.S. nor does it have the advantage of readily available raw materials which enhance the competitive position

of some other Canadian industries. However, we do have the advantage of highly trained manpower and have been able to capitalize on this, in a small way, by concentrating on being leaders in certain product areas. Perhaps this talent could be focussed to produce leadership in a broader range of products with high world demand.

The industry is most competitive in the area of systems for industry and government which are technically complex and "limited sale" products. Home entertainment products and to an even greater extent components are very scale dependent. Partly as a result of limited scale, the components segment of the Canadian electronics industry is experiencing a decline and the home entertainment segment is carrying on behind a protective tariff barrier.

The competitive position of the Canadian electronics industry may be changing as a result of the recent realignments in the world's currencies and in particular devaluation of the U.S. and Canadian currencies. However, the effects on the components and home entertainment segments of the industry may be rather limited since much of the competition comes from the United States whose currency bears roughly the same relative relationship with ours as it has in the recent past.

These behavioural differences, as well as the fact of foreign ownership itself, result in, or could result in, advantages and disadvantages to Canada. Production based on imported designs may result in immediately less expensive products for Canadian consumers. On the other hand, it lessens the scope of activities and challenge for Canadian scientists and engineers and may limit their ability to learn through

experience to stand on their own in undertaking new development projects. It also contributes to increased imports of components and sub-assemblies; manufacture to specifications developed abroad may thus be a contributing factor to the decline of the components sector of the industry.

Limitation of the scope for new product development in foreign-controlled companies reduces the opportunities for exploitation of potential market opportunities.

The practice, by foreign-controlled companies, of employing executives from parent organizations may result in greater management ability and better decision-making. On the other hand, it limits the opportunity for the personal development of Canadians and for their employment in positions of responsibility and authority in Canada. The presence of foreign nationals as chief executive officers of Canadian companies may also limit the understanding and co-operation possible between government and these companies.

The existing and increasing integration of key functions within multinational companies may lead to the making of more effective and profitable decisions. On the other hand, it limits the independence of Canadian management. As a result, time may be lost in making and implementing decisions, certain undertakings may be denied the Canadian operation, and Canadian executives may be frustrated and limited in their development potential through their inability to act without someone "looking over their shoulder".

The establishment, by Canadian-controlled companies, of subsidiaries abroad enables these companies to better take advantage of

foreign market opportunities. To our knowledge no foreign-controlled company in the Canadian electronics industry has established a subsidiary abroad. The chances of one doing so seem fairly remote; should an attractive opportunity for investment outside Canada arise, it would be much more likely for the parent organization itself to establish the new operation as a direct subsidiary.

While it may be argued that the establishment of subsidiaries abroad by Canadian-owned companies reduces their contribution to the Canadian economy, there would still be some advantages, including returns on capital, research and development activity, and head office functions in Canada. If a foreign firm sets up a subsidiary in a third country, no advantage, except perhaps the possibility of importing cheaper products, accrues to Canada.

The fact of foreign ownership itself provides a source of capital to supplement domestic funds, but it is not clear to what extent such additional funds are needed or desirable. It may also speed the introduction of new technological developments into our manufacturing processes and markets. On the other hand, the presence of foreign-controlled companies contributes to the fragmentation of the industry, particularly the home entertainment segment of it. In addition, parent organizations as well as the governments and central banks of the home countries of foreign companies with subsidiaries in Canada may take steps to limit the scope of Canadian operations.

Policy Considerations

The electronics industry is innovation and idea dependent.

It has been and could be even more in the future an important contributor to Canada's ability to research, develop, design and market new products. The dependence upon innovation not only covers product development, it also covers production technology, management (particularly of innovation and research and development) and marketing (particularly of exports). A thriving electronics industry therefore offers Canadians the opportunity to be employed, develop and grow in a highly challenging environment.

The industry depends on government support in many ways. These include the maintenance of tariffs for home entertainment products, trade support for the development of export markets, assistance in undertaking costly research and development activities and, last but not least, government purchases of its products.

Prospects for growth in domestic and world-wide demand for electronics products are considerable. If we are to maintain a healthy and growing electronics industry in Canada, to capitalize on future demand growth, current support in these areas needs to continue and new ways should be found of enhancing the ability of the industry to compete. Since we lack natural advantages, such as the market scale of the U.S., ways must be found to productively employ and give opportunity to our highly trained manpower. Perhaps one of these would be to develop an industrial strategy to coordinate and focus our industrial activity in selected product areas whose domestic demand is high and to capitalize on the expertise thereby developed to enter foreign markets.

This gives rise to the need for a coordinated and strong "buy Canadian" policy. For the electronics industry, perhaps this could be

called a "develop Canadian" policy, in that it would involve a coordinated effort to research and develop as many as possible of the new and sophisticated systems that we need. Buying products manufactured in Canada which are based on imported designs is not enough. Obtaining the rights to technology developed elsewhere does not give Canadian scientists and engineers the "school of hard knocks" experience necessary to undertake the new developments that will be required in future to remain competitive in a rapidly changing technological field.

For some time the Federal Government has provided assistance for research and development in Canadian industry. This, to some extent, has counteracted some of the disadvantages of foreign control in the electronics industry by enhancing the ability of subsidiaries to develop new products in Canada. However, not all countries share the view of the Canadian Government that research and development on the part of subsidiary companies makes a net positive contribution to the host country. Some countries, notably France, take the position that the research and development activities of subsidiary companies can have a detrimental effect on the creation of a strong, domestically-owned research base.

One way to deal with the existing and potential disadvantages of foreign-ownership would be to attempt to control the behaviour of foreign-controlled firms. Because the wide diversity of products and operations in the electronics industry necessarily leads to significantly different behaviour patterns, it would be very difficult to establish practical and effective behavioural guidelines which would not risk severely limiting the efficiency of the industry and impose an onerous paperwork burden for both government and industry.

Another approach would be to reduce foreign ownership by requiring foreign-controlled companies to sell a minority interest to Canadian stockholders. Such a move would, however, still leave control in the hands of the parent and would give the Canadian shareholders a relatively poor investment position.

If the existing and potential disadvantages of foreign control of the electronics industry are considered to outweigh the advantages, another way to reduce foreign ownership in the long term would be to stimulate the development of Canadian-controlled companies. Since the Canadian electronics industry is expanding and since the domestic and worldwide demand for electronics products can be expected to continue to grow, support of Canadian ownership would, within a reasonable length of time, result in a significantly higher proportion of the industry being Canadian-controlled. If considered desirable, a policy to support Canadian ownership might involve any or all of the following:

1. Adoption of a "buy-Canadian" policy wherein the "Canadian" would favour, but not necessarily be restricted to, Canadian-controlled companies. To be effective such a policy would have to apply to all levels of government as well as to their agencies.
2. Governments could create, through the example of their own activities, a trend toward greater confidence in things Canadian. This could be accomplished through wide publication of the governments' possible future policy of supporting the development of new products within Canada through their own purchasing policy and that of their agencies.
3. Government could take steps to create within the financial and banking system a greater availability of funds for small innovative companies in the electronics industry. Such steps would have to recognize and deal with the fact that innovation, which characterizes this industry, necessarily involves comparatively high risk.

4. Government could modify its taxation and industrial assistance programs to favour Canadian-controlled companies.
5. Recognition in government policies and programs that the development of Canadian multinational companies in this industry might prove to be of significant advantage to Canada and necessary for certain segments of the industry to achieve the volume base required to support development activity at home.
6. Government could take steps to reduce the probability of takeover of small and growing Canadian-controlled companies by foreign companies or by Canadian companies which are foreign-controlled. This would require a recognition of the fact that, with so much of the industry already controlled by foreign companies, and with such wide and diverse electronics manufacturing operations abroad, a Canadian-owned company which comes up for sale is often likely to be worth more to a foreign buyer than to a domestic buyer. This is because the value of an operation is higher where a similarity of business exists than where one does not. It is usually more advantageous to buy an existing operation than to start from scratch in setting up a new one if a foreign firm wishes to establish itself in the Canadian market.

If steps are not taken to reduce the relative attractiveness to foreign companies of Canadian-owned companies which come up for sale, it would seem inevitable that, so long as the political climate is otherwise attractive, the process of takeover will continue. Increasing proportions of the Canadian electronics industry will probably come under foreign control, even after implementation of the Foreign Investments Review Act, unless such steps are taken.

In summary, the world demand for electronics products is growing. In view of the difficult competitive position of the Canadian industry and the support for their own electronics industries given by foreign governments, the electronics industry should receive further government support if the health and growth of this industry is considered to be important. Furthermore, if the existing and potential

disadvantages of increasing foreign ownership of this industry are considered to outweigh the advantages, steps should be taken to improve the climate for, and support of, Canadian ownership rather than attempting to reduce the degree of foreign ownership through a requirement of minority Canadian interest or limiting the behaviour of foreign-controlled companies.

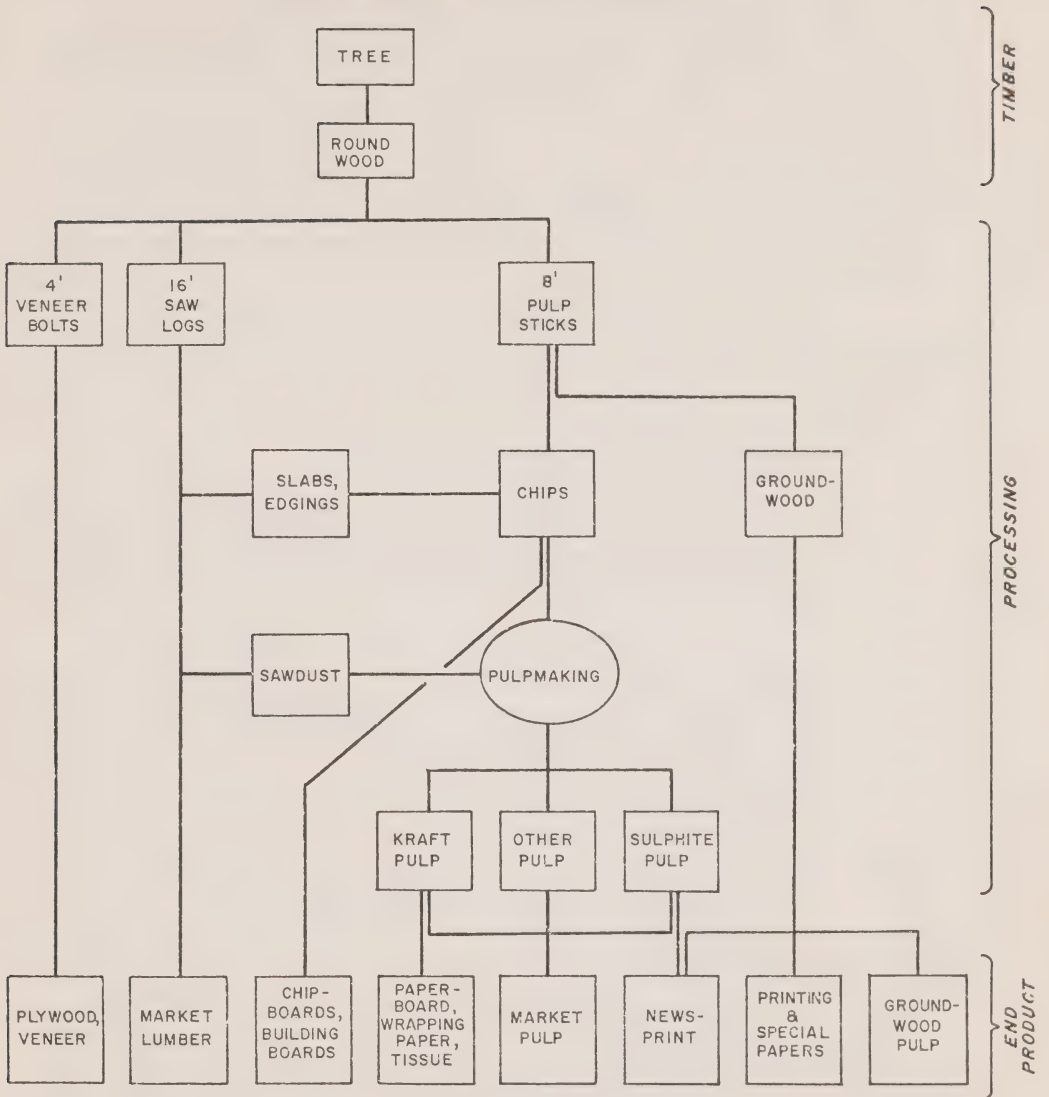
FOREST-BASED INDUSTRIES

As illustrated in Exhibit 16, overleaf, the major end-products of the forest-based industries are plywood and veneer, market lumber, chip boards and building boards, paper board, tissue and wrapping paper, market pulp, newsprint, printing and special papers, and groundwood pulp. The intermediate steps from tree to these end-products are illustrated in the flow diagram.

Because of their particular importance in Ontario, pulp and paper firms were selected for concentrated study. In addition, however, findings are presented for other firms operating in the field, and for suppliers of goods and services to the industry as well as users of its end-products. Pulp and paper mills employed over 22,000 persons in Ontario in 1970, and the forest-based industries in Ontario experienced a production level of \$515 million in that year, in terms of value added. The industry is also important to Ontario as a consumer of a major renewable natural resource, as a major employer and economic base for remote communities in Northern Ontario, as a major earner of foreign exchange owing to high exports to the United States, and as a potential or actual source of air and water pollution.

EXHIBIT 16

FROM TREE TO END-PRODUCT



Five firms were selected for detailed study, of which three are foreign-controlled and two have over 90 per cent Canadian ownership. One firm is in the lumber and plywood business, one is a specialized producer of newsprint, one produces tissue, and two are integrated companies encompassing a variety of fields in the industry. Three companies have their head offices in Ontario and two in other provinces.

Other information on the industry was obtained from the following sources:

- interviews with executives from a number of other forest-based industry firms
- interviews with industry associations including the Canadian Pulp and Paper Association (CPPA) and the Pulp and Paper Research Institute of Canada (PAPRICAN)
- interviews with officials of relevant Federal and Ontario Government departments
- interviews with suppliers of materials and services to forest-based industry companies
- review of data from Statistics Canada and other such sources
- review of other reports including submissions from industry associations, government working papers and reports, and material in relevant industry periodicals.

Comparison of Existing Behaviour and Attitudes

Exhibit 17, overleaf, summarizes the major comparisons of existing behaviour and attitudes which were made during the study. These are discussed briefly on the following pages.

EXHIBIT 17

GENERALIZED BEHAVIOUR AND ATTITUDE
COMPARISON FOR THE FOREST-BASED INDUSTRIES

Type of Behaviour/Attitude	Behaviour or Attitude of Canadian-Controlled Versus Foreign-Controlled Firms
<ol style="list-style-type: none"> 1. Pollution abatement. 2. Research and Development. 3. Labour relations. 4. Ability to serve domestic market. 5. Ability to obtain export markets. 6. Ability to obtain "fair share" of domestic market. 7. Tendency to import. 8. Support of local community. 9. Management autonomy. 10. Trend to increasing foreign ownership. 11. Attitude to free trade. 12. Attitude to screening legislation. 13. Attitude to non-discriminatory government regulation of corporate behaviour. 14. Attitude to discriminatory government regulation of foreign-owned firms. 15. Attitude to use of "moral persuasion" by government. 	<ol style="list-style-type: none"> 1. No difference due to ownership, if anything foreign-owned slightly better. 2. In some sectors (tissue) significantly less R&D in U.S. owned, otherwise no difference. 3. No difference in staff reduction policy; alleged U.S. influence on unduly fast wage increases in Canada relative to U.S. 4. With the exception of special papers, no difference. 5. No differences, except that U.S. publisher-owned firms show more stable export market; virtually exclusive concentration on U.S. as only export market by all firms in Ontario. 6. No difference except on fine papers imported in printed matter form. 7. Very little importing of components/ services except under concessional financing arrangements. 8. No difference, some U.S.-owned possibly better. 9. Lower for foreign-owned, except for publisher-owned who have considerable autonomy. 10. Some increase since 1965; may continue to increase if future demand for forest products is high relative to supply. 11. Negative on fine papers and tissue. 12. Generally negative. 13. Varied with interviewee irrespective of ownership. Broad difference of views. 14. Definitely negative. 15. Varied from mild approval to mild disapproval irrespective of ownership.

Direct Economic Effects
of Foreign Ownership

Foreign ownership in the industry has a wide variety of impacts. We were not able to establish any significant disadvantages accruing to Canada in the form of dividend payments, transfer pricing, management fees, and other outflows attributable to foreign ownership. During the recent recession experienced by the industry, such dividends were probably only marginally significant because of the extremely weak profit position of all pulp and paper companies.

The use of transfer pricing for moving profits is very difficult when the commodity sold to the parent or sister firm has a known world market price. Most products of the industry do fall into this category. Management fees, royalties, patents, etc. are most likely to be used in industries where the parent firm is significantly larger and technologically more advanced than the subsidiary. This is not typical in the forest-based industries, where Canadian operations (except in tissue) are at least similar in size to activities in the United States.

A major economic benefit was found to exist for publisher-owned companies. Connections with publishers and/or major marketing organizations domiciled in the United States tended to smooth out the more extreme fluctuations of the economic cycle. Captive producers of newsprint were able to maintain higher production rates and higher profit levels than were Canadian-owned companies or foreign-owned companies which were not controlled by newspaper publishers. The direct beneficial influence of U.S. ownership may be counterbalanced, however, by the continental

outlook it helps to generate in the entire industry. This problem is discussed further below.

Corporate Citizenship

We found no significant differences in good corporate citizenship between the foreign-owned and Canadian-owned companies studied. In the area of the husbandry of forest resources, some foreign-owned firms were found to have a somewhat more long-term view of forest utilization than most Canadian-owned firms, implying a more positive attitude toward conservation.

In the area of pollution control, no significant difference was found except for the better-than-average performance of a U.S. publisher-owned pulp and paper mill.

Research and development was seriously curtailed during the depressed years of the industry. The dismantling of R and D facilities was drastic in both foreign-owned and Canadian-owned firms, and it is too early to determine the extent to which they may be reinstated and how quickly this might occur. Multinational companies may enjoy certain R and D advantages through their membership in the Canadian Pulp and Paper Research Institute, whose results are available to them at a cost related to the companies' Canadian operations while the benefits can be world-wide.

In employment policies, we found that foreign-owned firms employ more non-Canadian citizens in executive positions. As far as mass dismissals are concerned, we have found no significant difference

related to ownership. When sales declined, large numbers of workers were fired by both foreign-owned and Canadian-owned firms. Some U.S. firms were apparently less sensitive in their methods of dismissal than the rest of the industry.

A Continental Approach

The proximity of the large U.S. market, the high degree of U.S. ownership, and the two-way movement of executives across the border lead to a predominantly continental outlook in the industry. There are few perceivable differences in this general outlook among senior executives of Canadian-owned and foreign-owned companies. They are concerned basically with the integrated North American market, the North American forest resource, and the North American labour situation, rather than these aspects separately in Canada and the United States. This continental outlook may reduce the likelihood of a positive and voluntary cooperation in Canada between government and industry, such as that which has apparently occurred in Sweden as described in the Forest-Based Industries report.

The interviewed executives in the industry (with one exception) are conscious of the interests of their shareholders and of the industry in general, but show very little interest in Canadian problems. Under these circumstances, it is quite possible that they will overlook opportunities to capture fast-growing markets in Japan and Latin America,

as long as they find sufficient markets in the United States. They may have no incentive to loosen the extremely strong marketing reliance on a single large customer nation.

Even if there are few measurable differences in individual corporate behaviour between foreign-owned and Canadian-owned companies, the all-pervasive influence of the foreign and particularly the U.S. presence is a most important element in decision-making processes in the forest-based industries. Executives of Canadian-owned firms exhibit a slightly more negative perception of Canada's ability to compete in new areas (such as the European Common Market and fine paper exports to the United States) than do their counterparts directing foreign-owned corporations. They convey an attitude of free enterprise and object to any kind of government interference, and they deny the need for Canadian control even more forcefully than do managers of foreign-owned firms in Canada.

Government Intervention
- Conflicting Objectives

With one single exception, all executives expressed their strong preference for the forces of the marketplace over government intervention; one executive (working for a U.S.-owned firm) indicated the need for significantly more centralized national planning for all levels of the industry. Most interviewees expressed their concern over

conflicting objectives in government policies. They alleged that while the Federal Government makes efforts to restrict foreign ownership, large-scale investment by foreign companies is invited mainly by provincial but to some extent federal authorities to enhance the industrialization of under-developed regions. Tax, infrastructure, and other concessions are offered to foreign-owned firms, who then use these unfair competitive advantages against existing Canadian-based companies. The example of the new pulp mill to be established by Rayonnier (an International Telephone and Telegraph subsidiary) on the north shore of the St. Lawrence was mentioned, together with the unsuccessful efforts of foreign-owned companies in the Labrador Linerboard and Churchill Forest Industries cases. This trend is evident in other industries also, particularly oil refining, where the Shaheen enterprise is the best example. It was pointed out that many of these enterprises receive concessional financing from abroad. These new firms are located at sites which otherwise would not have been selected; otherwise they would not have received government assistance. They introduce long term inefficiency into the forest-based industry of Canada.

A clash of objectives also was evident to many interviewees regarding the fight against pollution. Many executives question the need for cleaning up waters in sparsely inhabited areas when this will endanger the profitability of Canadian-based firms and jeopardize jobs for Canadians.

Potential Behaviour

In the past decade, three parallel trends have emerged in the Canadian forest-based industries regarding foreign ownership.

First, as shown in Exhibits 23 and 24 of the Forest-Based Industries report, there has been a gradual increase in total foreign ownership. In 1965, 39.4 per cent of assets in the Canadian pulp and paper industry were foreign controlled; this had increased to 45.2 per cent by 1970.

Second, non-U.S. companies (Japanese, Swedish and Finnish) have increased their penetration in the Atlantic Provinces and British Columbia.

Third, during the same period, there was an opposite tendency toward greater Canadian ownership in the form of provincial government takeovers of firms in serious financial difficulties. Major companies in Newfoundland, Manitoba, and British Columbia were purchased by these provinces to prevent the loss of jobs and the disruption of local communities.

Looking into the future, two contrasting scenarios can be drawn, depending upon which of the above trends will predominate. First, if we assume a strong market for fibre and building materials in the United States and a shortage on the world market, U.S. end users will probably secure raw material supplies by acquiring viable Canadian-owned companies and/or establishing new plants in Canada. On the west coast, similar moves can be foreseen by Japan. Under these circumstances,

Canada will have a strong, efficient, and profitable foreign-owned sector in the forest-based industries, while obsolete and/or ill-designed operations will be owned by certain provincial governments and their losses will be carried by Canadian taxpayers.

Assuming a slump in the world market, there is a possibility of low profits in the Canadian industry and a more nationalistic, protectionist attitude in the United States. This scenario may lead to significant plant closures by U.S.-owned firms in Canada and declining employment in Canada by Canadian-owned companies, who may transfer their activities to the U.S. southeast in order to maintain their continental market. Under these circumstances, foreign ownership may decline, but employment in Canada will decline at a significantly faster rate. A breakthrough in the use of non-traditional fibres (such as tropical hardwood and sugar cane bagasse) might have a severe impact on Canada's forest-based industries; its severity would, in our view, be relatively independent of the level of foreign ownership then in existence in the industry.

The first, more optimistic market scenario seems to be the more likely one, at least for the near and intermediate future. Barring preventive action under the Foreign Investments Review Act (Bill C-132), (5), or other intervention, this would tend to mean increasing foreign (specifically U.S.) ownership in Ontario. This would be combined with a stable but narrow market, exposed to long-term fluctuations in the United States.

Expansion of Subsidized
Foreign Ownership

In provinces other than Ontario, one can observe a significant expansion of the forest-based industries with the purpose of providing employment and creating a new economic base in underdeveloped areas. In many instances, foreign-owned firms are attracted to these areas by a variety of government subsidies. This tendency not only increases foreign influence in the industry, but also may lead to inherent inefficiency and a requirement for continued subsidies. Using concessional financing by foreign sources, some of these new plants are obliged to buy foreign-manufactured equipment, instead of competitively priced Canadian-made machinery. They can also upset the markets for products of established Canadian pulp and paper companies (both Canadian- and foreign-owned) who do not receive the benefit of subsidies in their operations.

If the trend continues, it will have a serious negative effect in Ontario, particularly if markets are weak. Jobs will be lost, and a serious problem will develop in the North, where the reliance on forest industries is the highest. As the largest contributors to federal income, the taxpayers of Ontario will pay most for the subsidies supporting inefficiency in the industry and leading to an economic decline in Ontario.

On balance, the direct, incremental impact of foreign ownership in Canada's and Ontario's forest-based industries appears to be largely neutral, based on the economic measures discussed above. There is,

however, a detectable cumulative effect of foreign and particularly U.S. ownership, combined with the strong Canada-U.S. market linkages, on the thinking and outlook of all the forest-based industries in Canada. Whether this continentalization of thinking is or is not acceptable to Canadians is an important political issue that goes beyond the industrial context. Debate on this issue will require consideration of both the incremental and the cumulative effects of foreign ownership as measured by this and other studies.

Policy Considerations

Executives of Canadian- and foreign-owned companies unanimously suggested the need for rationalization of the timber limits in Ontario. At present, timber limits are based mainly on historical patterns, and there is a significant amount of cross-hauling of roundwood. By reassigning the woodland areas in a way that is fair to the operators and simultaneously minimizes transportation costs, the competitive position of the entire industry can be enhanced. It was stated that small sawmill operators should be discouraged and that an effort should be made to integrate saw-milling with the pulp and paper industry. No specific suggestions were made as to how this objective could be achieved.

Regarding export and trade barriers, there was a consensus that the newsprint and pulp-making sectors of the industry do not face trade barriers; their problem is the fast increase in their costs and the fact that they are further from some important potential markets than their competitors.

In fine paper manufacturing, opinions were available only from executives of the two Canadian-owned firms, owing to the lack of involvement of foreign-owned firms in this area. One of the interviewees suggested consolidation and government encouragement of rationalization, with the objective of decreasing imports. This executive saw very little chance of increasing Canadian exports to the United States. The other company executive was of the opinion that no government interference is required.

Free trade in fine papers with the United States would lead to the extinction of Canadian manufacturing, according to both company executives. Canadian costs are too high in their view, and distribution in the United States is owned and controlled by American manufacturers. By the time Canadian-owned firms could develop their market in the United States, the market in Canada would have been taken over by more efficient U.S. firms. The view was expressed that Canadian-owned companies would have a better chance of penetrating the U.S. fine paper market if they established manufacturing facilities south of the border.

As distinct from free trade, a solution similar to the automotive trade agreement would have been welcomed by some executives of fine paper companies. This would mean that Canadian production levels would be protected and that only manufacturers would be allowed to import duty free.

The tissue manufacturing sector is entirely U.S. dominated (by Kimberley Clark/Kleenex and Scott). The opinion given by an executive

of a large producer of tissues was completely pessimistic. He expressed the view that free trade in consumer products (tissues) would mean that manufacturers in Canada would lose sales to significantly larger U.S. producing units. He suggested that there are too many firms in this business in Canada and that they are not competitive. Even higher tariffs would be required to protect the industry. Rationalization within the industry might somewhat improve Canada's competitive position.

To increase the stability of markets, the natural advantages of publisher-controlled companies and U.S. firms with large distribution organizations might be simulated by establishing cooperative marketing and/or distribution arrangements among Canadian firms. Another alternative would be a marketing board which assigns production in a fair manner to producers when capacity is insufficiently utilized and/or which rations available products when scarcities arise. These solutions are clearly in the domain of federal/provincial/private cooperation. They also assume that Canadian-owned firms are willing to act as a separate body from their U.S.-owned competitors.

In general, we have concluded that good corporate citizenship should be encouraged, and if necessary enforced, on an industry-wide basis irrespective of ownership. This may involve a combination of financial incentives, moral suasion, regulation, and other legislative action. Present policy is evolving along these lines, but it requires constant review in the light of the level of company compliance and public attitudes.

Canadian Firms in
the United States

A number of Canadian-owned pulp and paper companies (for example, Abitibi and MacMillan Bloedel) have established subsidiaries in the United States. As described earlier, this tendency might become disadvantageous to Canada under continuing adverse market conditions for Canadian pulp and newsprint producers. It certainly gives greater flexibility of operation to these companies, and their shareholders will continue to realize the benefits of a North American market, even if the U.S. turns more protectionist or if there is a significant upward valuation of the Canadian dollar. From the point of view of the Canadian economy as a whole, this might be considered to be a disadvantage, since it would tend to make Canadian-owned manufacturers "foot-loose" and would facilitate the movement of capital and employment from Canada to the United States. The establishment of Canadian-owned and -controlled multi-national corporations may, however, have beneficial effects in the form of profit flows into Canada and increased management and research opportunities for Canadians.

In the case of a declining market, the flow of Canadian capital (and jobs) to the United States may become contrary to the national interest. Under these circumstances, the Federal Government might consider taking action in the form of incentive taxation, restrictions on capital flows, or other measures.

Wage Escalation in Canada
and the United States

The rate of wage increases in the Canadian-based industry has outpaced that of competitors in the United States (see Exhibits 14 and 15 of the Forest-Based Industries Report). Not only has the rate of growth been higher in Canada, but Canadian workers now earn higher absolute wages than their U. S. counterparts in all comparable regions. This shift has not been supported by a parallel improvement in Canadian productivity.

Representatives of both government and industry have indicated that there may be some form of collusion between U.S.-controlled unions and U.S. ownership in these disproportionate wage arrangements. It is imputed that their final objective could be the general weakening of the competitive position of Canadian-based industry relative to producers in the United States. Other interviewed executives and civil servants disagreed with this conclusion, although they agreed with the validity of the observation itself.

Irrespective of its basic cause (collusion or market forces), a continuation of this trend could have unfavourable consequences, particularly if the market for forest industry products should soften again. The trend of relative wage rates in the U.S. and Canada deserves careful government attention.

Any further government action regarding the utilization of Canada's forest resources should be taken on a joint federal-provincial

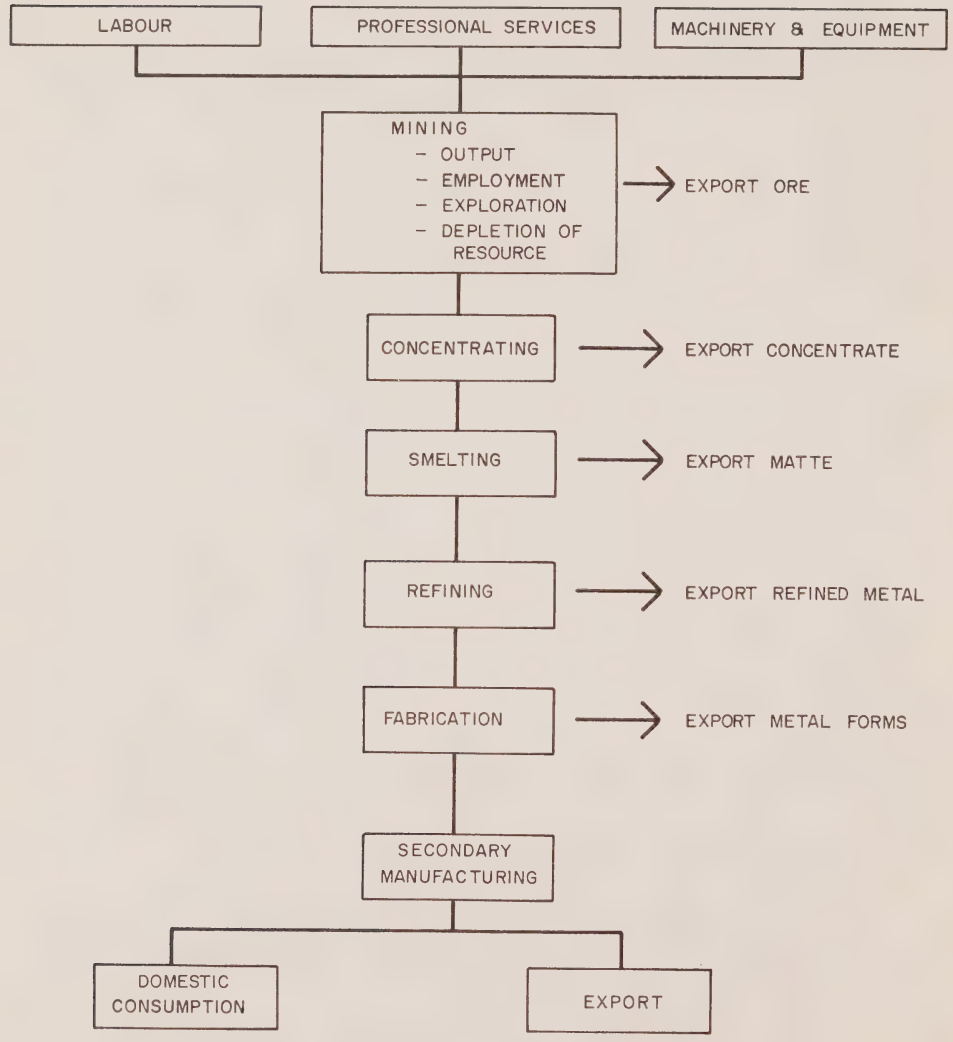
basis and should take into account the protection of existing jobs, particularly in the light of the impact that any major disruption could have on remote communities which depend heavily upon forest-oriented activities.

THE MINING INDUSTRY

In this sub-study, we concentrated upon the mining of metals, owing to the importance of this part of the mining industry to Canada and, in particular, to Ontario. As illustrated in Exhibit 18, opposite, there are a number of important steps in the process of locating ore bodies and producing from them various types of metal products. Labour, professional services, and capital in the form of machinery and equipment are inputs to the mining process, which involves exploration and development of ore bodies to produce various types of ore. The ore is usually concentrated close to the mine, in order to separate the metal bearing compound from rock. Following this, the concentrate is subjected to processes such as smelting and refining to produce metal. The metal is fabricated into basic forms such as bars and rods, following which it is used for various types of secondary manufacturing to produce end-products for domestic consumption or export. As shown, the products can be, and very often are, exported in their intermediate forms, as concentrate, matte, refined metal, or metal forms.

Mining is an important sector in the economy of the Province of Ontario. In 1971, mining accounted for over 32,000 jobs in the

COMPONENTS OF THE MINING INDUSTRY
AND FLOW OF PRODUCTS



Province. In that year, Ontario mineral output was valued at \$1.56 billion and Ontario per capita mineral output was \$201. In 1971 Canadian mineral output was \$5.9 billion and Canadian per capita mineral output was \$276.

During the course of this study we conducted in-depth interviews with senior executives of five mining corporations operating in the Province of Ontario. Two of these were Canadian-controlled, one was foreign-controlled, and the other two are classed as international in that their stock is widely held both in this country and abroad, in approximately equal proportions.

In addition, KPM&Co. staff interviewed:

- mining labour leaders
- executives in industries which supply machinery and equipment to the mining industry
- executives in industries which fabricate the output of the Ontario Mining Industry
- engineering consultants who supply services to the mining industry
- Federal government civil servants
- Ontario government civil servants.

The summary and policy considerations presented below are based primarily on these discussions.

Comparison of Existing Behaviour and Attitudes

This section summarizes the results of our analysis with respect to behavioural differences between the Canadian- and non-Canadian-

owned mining corporations surveyed in this study. These are summarized in Exhibit 19, overleaf.

We were unable to determine any behavioural difference with respect to exploration. Canadian- and non-Canadian-owned firms were prepared to explore in any promising location. For the firms studied the percentage of exploration activity in Canada as a proportion of their world exploration expenditures had declined from 1964 to 1972.

Both Canadian-owned companies were smelting and refining all of their output in Canada. One international firm refined the majority of its output in the country. The foreign-controlled firm refined 50 per cent while the other international firm refined none of its output in Canada. There are historic and market forces which have been contributing factors in the development of this pattern. We have not been able to substantiate that ownership differences have been a major factor.

Both Canadian-owned companies have integrated forward in Canada to the fabrication/secondary manufacturing stage. One of the international companies has achieved forward-integration but this does not occur within Canada. The remaining international and foreign companies do not fabricate or manufacture. We have concluded that, for the firms studied, Canadian ownership was a factor in the establishment of at least some portion of the fabrication facilities in Canada.

The two Canadian and one international company are autonomous. The foreign firm is a division of the parent corporation and functions

EXHIBIT 19GENERALIZED BEHAVIOUR AND ATTITUDE
COMPARISON FOR THE MINING INDUSTRY

Type of Behaviour/Attitude	Behaviour or Attitude of Canadian-Controlled Versus Foreign-Controlled Firms
1. Pollution abatement.	1. No difference due to ownership, if anything foreign-owned better.
2. Research and development.	2. No difference in behaviour.
3. Labour relations.	3. No difference in behaviour.
4. Ability to serve domestic market.	4. No difference in behaviour.
5. Ability to obtain export markets.	5. No difference except in amount of fabrication carried out in Canada.
6. Ability to obtain "fair share" of domestic market.	6. No difference in behaviour.
7. Tendency to import.	7. No difference, except newly-established foreign-owned firms have tended to use foreign machinery/engineering services more in their early years; all companies purchase on least cost basis.
8. Support of local community.	8. No difference in community relations.
9. Management autonomy.	9. Some diminution in recently taken-over foreign-controlled firms. Fewer Canadians in senior positions in foreign-controlled companies.
10. Trend to increasing foreign ownership.	10. Stable situation. Percentage of Canadian stock ownership increasing in some firms.
11. Attitude to free trade.	11. Firms consider they are currently in a relatively free international market for unprocessed and semi-processed mineral products.
12. Attitude to screening legislation.	12. Some agreement take-overs should be screened.
13. Attitude to non-discriminatory government regulation of corporate behaviour.	13. Prefer minimum government involvement to influence free market forces.
14. Attitude to discriminatory government regulation of foreign-owned firms.	14. Unfavourable. Companies interviewed considered themselves international in outlook.
15. Attitude to use of "moral persuasion" by government.	15. Prefer stated regulations to government discretion. Desire to minimize uncertainty.

as such. The Canadian division has international responsibilities which tends to increase some of the Canadian decision making powers. The remaining international company experienced a change in ownership from Canadian owned to international. The addition of non-Canadians to the Board of Directors (which meets six times a year) has led to some diminution in Canadian decision-making.

We were unable to determine any significant behavioural differences among the firms studied in terms of labour relations or community relations.

There are some behavioural differences in terms of purchases of engineering consulting services which appear related to ownership. These differences were most significant when the initial investment was made by a foreign-controlled company, with foreign-controlled companies tending more often to use foreign-owned engineering consulting firms. As the company matured within the Canadian environment this behavioural difference tended to become less significant.

None of the companies envisaged significant positive advantages from freer trade. The two Canadian-owned companies expressed some apprehension with respect to the impact of free trade on the domestic competitiveness of their fabricated and manufactured products.

There are more Canadians in senior management positions in Canadian- vis-a-vis non-Canadian-controlled corporations. This difference appears to be a function of ownership.

All of the firms were capable of obtaining sufficient capital in the Canadian financial markets to satisfy routine requirements. The principal source of routine financing for all of the companies is retained earnings. For large capital projects all of the firms have obtained funds in the New York financial market. When the foreign company established its initial facility in Canada, the majority of its funds were obtained from the parent corporation. However, when one of the Canadian-owned mining firms established a facility in the United States, it obtained the required debt financing through the United States banking system.

According to provincial government officials, all of the firms in our survey were complying with government pollution requirements. However, these officials indicated that three of the four firms conducting "frontier research and development" in the pollution control field are non-Canadian-controlled. This may indicate a favourable difference in behaviour as the non-Canadian-controlled firms attempt to be good corporate citizens.

One Canadian-owned firm had an explicit "buy-Canadian" policy for purchasing of machinery and equipment. The other companies tended to buy Canadian to the greatest extent possible. We were unable to determine any significant behavioural difference with respect to purchasing policies.

Behaviour of Industries Supplying
the Mining Sector and Industries
Fabricating Metal Products

While not part of our terms of reference, KPM&Co. examined the behaviour of firms supplying equipment to, and using the output from, the mining industry. Due to the importance of the mining sector in the

Canadian economy we attempted to determine whether strong forward and backward linkages have been developed.

We were unable to find many Canadian-owned corporations supplying machinery and equipment to the mining industry. We interviewed a small number of subsidiary mine machinery producing companies. Based upon our discussions we found that, in a number of cases, these companies conformed to the "truncated plant model" of the Gray Report.* According to this model, the subsidiary does not undertake the complete range of operations normally found in an autonomous company.

For example, many of the mine machinery manufacturing firms did not perform research and development. In some cases these companies were prohibited from exporting to certain markets by the parent corporation. With respect to decision-making and management opportunities, in one of the firms interviewed the president of the Canadian company resides in the country of the parent company.

Canada has developed an indigenous geophysical equipment producing industry. Our interviews with senior executives in this industry suggest that Government survey expenditures were of considerable assistance. Neither Canadian nor foreign-owned mining corporations appear to have attempted to "foster" the development of these geophysical equipment producing firms.

* Page 405, Gray Report; see Appendix A, reference (1).

Potential Behaviour

In this section we discuss potential behaviour by both the mining industry and government. In addition, we present our final conclusions with respect to the impact of foreign investment in the Canadian mining industry.

Potential Behaviour:

The Mining Industry

The historical impact of the mining industry upon Canada has been well documented. (7) At times, industrial relations in both Canadian- and foreign-controlled mining companies have been unsettled. However, the economic and social environment in Canada has progressed to the stage where corporate industrial relations have become somewhat more sensitive to public opinion. It would appear to be reasonable to assume that concern with "corporate image" will continue to act as a moderating force on corporate behaviour.

This awareness of the social environment will also effect the economic decision-making process of foreign- as well as Canadian-controlled mining companies. For example, one of the international firms interviewed in our study indicated that they built a further processing facility in Canada even though their financial analysis indicated that a greater rate of return on investment could have been obtained if the plant was located closer to the Western European market. The senior executive interviewed suggested that the firm's corporate image in Canada was one of the principal determinants in deciding to build the facility in Canada.

However, this positive attitude does not appear to have manifested itself in the purchase of Canadian content in consulting engineering

services or mine machinery and equipment industries. As noted in the report, there was no significant difference in purchasing policy based upon ownership. Potential behavioural patterns in the mining industry (both Canadian- and non-Canadian-controlled) may result in increased purchases of goods and services based, in part, upon the extent of Canadian content in these items. Our discussions with senior mining executives, in foreign- as well as Canadian-controlled firms, indicate an increased awareness for the need to develop policies of this type.

Potential Behaviour:
Government

At this time a number of Provincial governments are actively involved in the exploration and development of mineral resources. Recently, the Canada Development Corporation (CDC) has made an offer of \$290 million in order to purchase a substantial interest in Texasgulf Inc., a multinational corporation with substantial investments in Canada.

There have been a number of studies and/or statements which have suggested alternative strategies for government to increase its share of the income generated by the mineral industry. For example, Professor Kierans in his report to the Manitoba Government suggests:

"It would, therefore, recommend to the Government of Manitoba a new resource policy ... A fundamental aim of such a policy shall be the repatriation by the Crown of all existing resources leased to the private sector and that a period, not exceeding ten years, be granted as sufficient to accomplish the transfer in an orderly fashion." (8)

On July 23, 1973 the Minister of the Federal Department of Industry, Trade and Commerce issued a press release which suggested that

a system of export licenses might stimulate a greater degree of processing of Canada's minerals before they are exported. However, analysis would have to be conducted to determine present and potential world demand and to ensure that foreign purchasers would be prepared to pay higher prices for minerals with a higher degree of processing.

The current cyclical expansion may not be indicative of long term mineral shortages. This may be particularly true with respect to such minerals as nickel, copper and sulphur. The imposition of further processing requirements may place the Canadian mining industry in a position where its ability to compete in international markets may be eroded. In addition, Dr. Cordell (9) has noted that, while we should probably negotiate with other countries to lower their trade barriers to our manufactured goods, using our natural resources as a bargaining lever where appropriate, there are other factors which must be borne in mind. These include alternate sources of supply of natural resources, vertical integration of existing suppliers and users, and the need for an industrial strategy in Canada which identifies the most important manufacturing sectors to be emphasized.

Policy Considerations

Export of Mineral Resources

The exporting of mineral resources has received criticism in recent years because of a suggested adverse effect upon Canada's exchange rate. According to this hypothesis the exchange rate will increase when mineral products are exported and the increased exchange rate will hinder exports of labour intensive secondary manufactured commodities.

Senior executives in the mining industry stated that Canadian export of mineral resources is not a deterrent to Canadian exports of secondary manufactured products. We were unable to resolve this question in factual terms and note the lack of detailed economic studies to determine the impact of exporting mineral products on the ability of Canada to export secondary manufactured products.

Direct Government
Mineral Development

A number of labour, government and mining executives recommended that the provincial government consider the establishment of a government agency to engage in mineral exploration and development activity. With the exception of the foreign-controlled mining company, this concept would appear to be acceptable to the mining firms in this study. The mining companies expressed the opinion that the provincial agency must be prepared to assume the same risks as private firms assume. Thus, in a joint venture with private mining companies, the provincial agency would be expected to provide risk capital equal to its share of the venture. Such a corporation could help to stabilize the level of exploration activity, ensure a fair return to the province for its mineral resources, and increase purchasing of Canadian mine machinery and equipment.

Screening Agency

We discussed with executives in the mining sector their views with respect to the screening of take-overs of Canadian-owned corporations. Mining executives indicated some agreement with the screening concept. They expressed the opinion that the take-over of profitable

Canadian-owned firms should be examined to ensure that a net social gain will accrue to Canada if the corporation is taken over. Nonetheless, the firms expressed concern that the proposed federal screening agency would operate under guidelines rather than fixed regulations. The mining executives interviewed generally expressed a preference for definite regulations rather than governmental discretion.

Canadian Content in the
Mine Machinery Industry

A number of interviewees expressed the opinion that government should attempt to:

- foster the further development of a Canadian-owned mine machinery producing industry
- improve the performance of foreign-controlled subsidiaries with respect to (1) exports, (2) research and development, and (3) Canadian value added.

The view was expressed that improving the performance of foreign-owned mine machinery producing subsidiaries would also have a positive impact with respect to both output and employment. This would occur through an increase in export activity, greater research and development undertaken in Canada, and an increase in Canadian value added. Value added would be increased by performing more manufacturing in Canada rather than the assembly of components produced abroad.

Canadian Content in the
Metal Fabricating Industry

Exhibit 14 in Section III of the Mining Industry report indicates that while Canada has a substantial trade surplus in concentrates and primary refined forms, there are large trade deficits in a number of

fabricated forms. In addition, the behaviour of the sample of subsidiary firms surveyed indicated a degree of truncation in the extent of their operations. For example, exports were restricted to certain geographic areas and the level of process research was significantly below what would be expected in an autonomous organization.

A number of senior executives interviewed suggested that enforcement of the Winters Guidelines(6) through legislation and/or moral suasion could reduce some of the undesirable effects of truncated subsidiaries operating in the Canadian metal fabricating industry.

As another policy option, the Province of Ontario as owner of the mineral resources could grant production licences based upon performance criteria. One possible criterion could require that a specific percentage of the refined metal must be fabricated within Canada. Programs of this nature can be more effectively implemented within the context of well defined resource management policies. Resource management policies require overall development objectives and strategies for policy implementation. While it may be premature to apply such policies at this time, the Province should undertake research to estimate the economic impact of such programs upon firms engaged in the mining of Ontario's minerals.

Further Processing

Senior mining company executives believed that judgment should be exercised in the enforcement of further processing legislation. This raises the fundamental issue as to the potential trade-off with respect to value added and employment opportunities vis-a-vis the mining

of all economic ore bodies. The economics of an ore body are altered when legislation affecting the cost of mining the ore body is enacted. Thus, stringent requirements as to the extent of further processing required can affect the timing and extent to which it is profitable to mine a given body. It then becomes a matter of public policy as to whether government is prepared to possibly postpone the development of an ore body due to further processing requirements.

Secondary Manufacturing

A study on Canadian manufacturing prepared for the Economic Council of Canada noted:

"...a number of firms mentioned that prices of products based on Canadian natural resources are sometimes higher to Canadian purchasers than to U.S. buyers, even for similar quantities." (10)

We have not been able to pursue this matter in detail; however, it appears that (for a variety of reasons) these price differentials continue to occur at various times. Detailed analysis would be required to determine the factors responsible for these differentials and the possible policy tools that could be developed to ameliorate this situation.

Assistance to Small Prospectors and Mineral Developers

There was general agreement amongst the mining company executives that small prospectors and developers will be placed in a less advantageous position as a result of the recently enacted Federal

Tax Legislation. Some of the reasons advanced for this decline in incentive to small miners and prospectors are:

- the impact of capital gains taxes if the mine is sold
- the requirement that depletion allowances be earned by means of further exploration activity.

Mining company executives expressed the opinion that, if government policy is to encourage the mining industry, additional incentives are required to assist small miners/prospectors. Executives of the larger mining companies indicated that small developers have been successful in finding new mines, whereas many of the large firms have not been as successful. Some of the larger mining companies are more concerned with proving new reserves around their existing ore bodies and, in the past, have purchased new mines discovered by smaller prospectors.

The Economic
Extent of an Ore Body

In Exhibit 15, Section IV of the Mining Industry report, we indicated the impact of altering various taxes upon the economic viability of a group of mines. Similarly, all production costs (including taxes) affect the economics of a given ore body and determine the grade of ore that will be mined. Thus, higher production costs result in the mining of higher grades of ore.

During the course of our interviews, a number of labour leaders and government officials expressed concern with respect to the mining of only the higher grades of ore in an ore body. It may be difficult

to return to the ore body at a later time to mine the lower grades of ore. This practice could result in a net social loss although the economics of mining only the higher grade is a rational economic decision, at the time.

While it is questionable that this process is widespread, a company may be confronted with the decision to mine lower grades of ore in an operating mine or abandon the mine and develop at a new location. Other than expropriation and government operation of the facility, the alternative government option appears to be to provide incentives to continue to mine an uneconomic ore body. It would be difficult, however, to justify granting such incentives to the large, profitable, mining firms which currently operate within the Province of Ontario.

Use of Canadian Consulting Engineers

Interviews with mining and Canadian consulting engineer executives indicate that a number of mining consulting contracts have been placed with foreign consulting engineering firms. In some cases, the majority of the work has been performed abroad with the resultant loss of potential Canadian engineering job opportunities.

Two recommendations emerged from discussions with the executives interviewed. Firstly, it was suggested that some type of review mechanism be developed where it must be shown that projects (of a specified size or larger) require the use of foreign consulting engineers. This would place responsibility on the mining company to ensure that Canadian expertise is not available prior to awarding a contract to a foreign

firm. A policy of this type would still permit the efficient utilization of foreign expertise when it can be demonstrated that the required capability is not available in Canada.

The second recommendation suggests that, if foreign expertise is required, this capability should be retained only to the extent required. Thus, if the required foreign input on a project is, say, two per cent, then foreign expertise should be utilized only to that extent. The remaining 98 per cent of the work that can competently be done in Canada should be performed in this country. This permits the use of necessary foreign capability but maximizes the Canadian content to the greatest extent feasible.

Policies to Stabilize Output and Employment

There was a dichotomy of opinion with respect to the efficacy of instituting government policy to stabilize output and employment in the mining industry. Labour and government leaders believed that such policies were required, whereas mining executives were generally opposed.

One possible policy tool to stabilize output/employment in mining would be the provision of loans on the accumulation of stockpiles. Mining executives believed that the industry should be permitted to respond to business cycle conditions by undertaking structural changes within their firms and, therefore, did not respond favourably to this policy proposal. Our interviews indicate that additional research should be undertaken in the area of defining policy tools to stabilize output and employment in the mining industry.

Concessional Financing

Concessional financing has been defined as the loaning of governing funds for a project on the provision that a commitment is made to purchase machinery and equipment from the jurisdiction of the government providing the loan funds. This technique has been adopted by a number of countries in an effort to provide additional markets for the goods and services of the country.

A number of interviewees suggested that Canada should become more actively involved in concessional financing as a method for selling greater amounts of mine machinery and equipment abroad. In addition, this concept could be used within Canada by the Ontario and/or Federal Government when it provides financing to, say, the developing Atlantic Region, with the provision that the machinery, equipment and services be purchased from sources within the Province of Ontario and/or Canada.

Techniques such as this could assist in the further development of Canadian sources of financing and also assure increased Canadian content in a number of major projects, both within the country and abroad.

Foreign Capital in the Mining Industry

Canada has experienced large capital inflows in the exploration and development of its mineral resources. Conventional wisdom suggests the mining industry in Canada would not have grown to its present size without infusion of foreign capital. Our study has neither confirmed nor disproven this hypothesis.

As Canada's economy has matured during the past 50 years, the requirements for foreign capital to develop the country's mineral potential have lessened. However, this does not necessarily imply that future foreign investment in Canada's mining industry would be undesirable. For example, foreign investment in mining would permit domestic funds to be utilized in other sectors. These alternative uses can be social, for example dental care, as well as investment in other industrial sectors. The study indicated, however, that normal capital requirements can now be met in Canada by means of retained earnings of the mining companies and Canadian capital markets.

The Allocation and Use of
Canada's Non-Renewable Resources

The allocation and use of Canada's non-renewable resources has increasingly become a subject of debate. The following list provides a partial enumeration of some of the positions in this debate:

- minerals should be subjected to further processing before they are exported
- minerals should be left in the ground until some future time when they will presumably be worth much more than they are today
- Canada should de-emphasize the production of minerals and concentrate upon producing secondary manufactured products
- Canada should buy back foreign mining companies
- Canada should nationalize foreign mining companies and operate the facilities through government corporations
- Canada should nationalize domestic, as well as foreign, mining companies and operate the facilities through government corporations.

The list is not exhaustive, nor are the items mentioned mutually exclusive.

Our study of the Ontario mining industry indicates that behavioural differences do exist between foreign- and Canadian-controlled mining companies. With respect to such factors as the purchase of goods and services and the extent of fabrication in Canada, it is possible to legislate and/or apply moral suasion in order to bring about desirable behaviour patterns.

However, the extent of the behavioural differences in themselves, do not appear to warrant the more extreme positions (such as the nationalization of foreign firms) that have been proposed in the debate on the allocation and use of Canada's non-renewable resources. Nonetheless, there appear to be valid reasons for government activity in the mining industry. A principal reason is the fact that mineral resources are non-renewable and that private sector decisions as to the timing of the development of these resources may not correspond to the government's perception of the socially desirable time horizon for the development of these resources.

In addition, as highlighted in our small town and employees surveys, the private development of natural resources appears to generate a more emotional response than, say, the private manufacture of an automobile.

The fact that governments have a role to play in the development of Ontario's natural resources was not questioned by any of the executives interviewed in this study. Rather, the question has become, how active a role should governments assume?

Discussions with senior mining executives (irrespective of ownership) indicate that the companies are generally prepared to undertake joint exploration and development ventures with government, provided the government is prepared to assume its share of the risk. Joint ventures of this type might somewhat reduce the emotional aspects of private resource development. In addition, the participation of private companies should assist in maintaining efficiency in the joint venture management and production processes.

III - ATTITUDES TOWARD FOREIGN
OWNERSHIP AND CORPORATE BEHAVIOUR

III - ATTITUDES TOWARD FOREIGN OWNERSHIP AND CORPORATE BEHAVIOUR

Part of the overall study was designed to survey public opinion regarding the impact of foreign ownership and the comparative behaviour between foreign- and Canadian-controlled companies. The "public" was initially identified by the Select Committee as:

- general public
- employees
- senior businessmen.

At the conclusion of discussions with Select Committee members, two specific attitude surveys were commissioned, one of employees, and the second of the general public and community leaders of four small urban communities in Ontario, both described at length in two companion volumes as mentioned in Chapter I.

In surveying employees' attitudes and those of the four small urban communities, we purposely dovetailed these surveys into the factual part of the overall study of six industries. The employees surveyed, as far as possible, were from the companies subjected to detailed study in the sub-studies of six industries, and the selection of the four towns was partly determined by the existence of major companies in each town that were representative of at least one of these industries.

The factual studies of six industries included many interviews of senior executives; as well as being a major input to the industry studies these interviews provided a sounding of senior businessmen's attitudes. To give an even broader picture of the attitudes of industry leaders and other knowledgeable people in the Province of Ontario, 30 senior businessmen outside the selected industries, academics, labour leaders, and government officials were also interviewed. Together, these interviews provide a basis for discussing opinions of industry, academic and government people regarding issues relating to foreign ownership.

The rest of this section describes the two surveys undertaken, how their results compare with surveys others have done, and the general attitudes of those interviewed.

EMPLOYEE ATTITUDES

For each of the companies we approached for in-depth examination, we asked for their co-operation to administer a questionnaire to a random sample of that company's employees. The questionnaire was confidential and self-administered, and it was sent to the employee's home by Canadian Facts Company Limited under a cover letter from the Chairman of the Select Committee. Fifty to 100 employees were chosen from each company at random, where possible from all the Ontario staff of each of the participating companies.

The questionnaire was designed to indicate attitudes in the following areas:

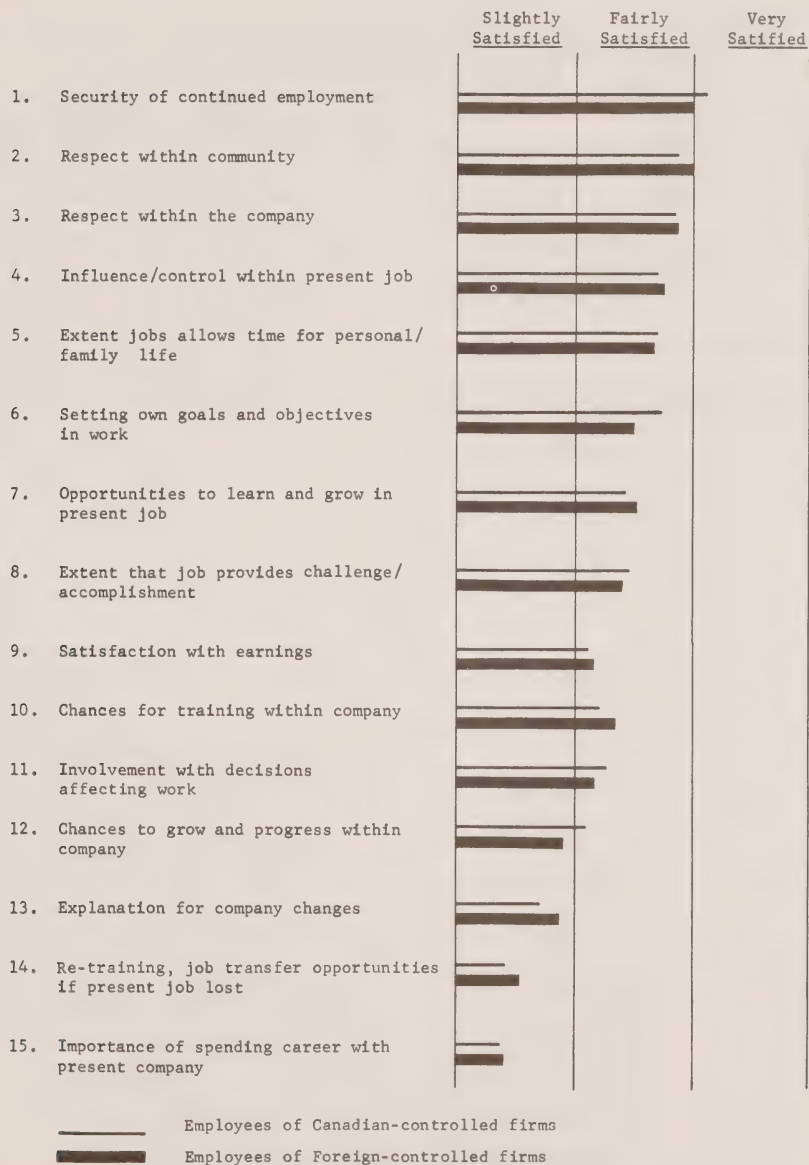
- whether the respondent had any perception of the relative autonomy of his company vis-a-vis its head office, either in Canada or outside the country
- whether there were differences in job satisfaction between employees of Canadian- and foreign-controlled companies
- whether there were differences in opinion on specific industry subjects, and what differences, if any, could be identified between employees of Canadian-controlled companies and employees of foreign-controlled companies
- whether company employees had additional comments to make on the subject of the survey
- whether there were differences in the individual's perception of himself as a nationalist, between employees of Canadian-controlled companies and employees of foreign-controlled companies.

The response rate was 25.3 per cent from a mail-out of 2,245 questionnaires. The response rate from employees of foreign-controlled versus Canadian-controlled companies was roughly the same.

The main conclusions of the employee attitude survey can be summarized as follows:

- Employees of Canadian-controlled companies have similar attitudes to those held by employees of foreign-controlled corporations.
- Although there is some general agreement that Canadian-controlled companies are better "corporate citizens" than foreign-controlled companies, there is very little sentiment against foreign-controlled companies.
- There is a widespread pro-Canada sentiment, and a general feeling that the government should take further steps to retain control over our economy.

EXHIBIT 20

FOREIGN/CANADIAN COMPARISON OF JOB SATISFACTION
ALL EMPLOYEES

Each of these general conclusions is explored below.

Employee
Attitudes are Similar

The results of the survey leave the strong impression that employee attitudes of Canadian-controlled firms are not much different from those of foreign-controlled firms. The autonomy of the foreign-controlled company is perceived as restricted, but so is that of the branch office of the Canadian-controlled firm. The job satisfaction scores are about equal (see Exhibit 20, opposite, for the results from the survey on this question). Both sets of employees feel that the Canadian-controlled company's behaviour is better than that of the foreign-controlled company, and both favour government action in protecting national economic interests. Finally, both groups of employees show about equal "fairly nationalistic" ratings.

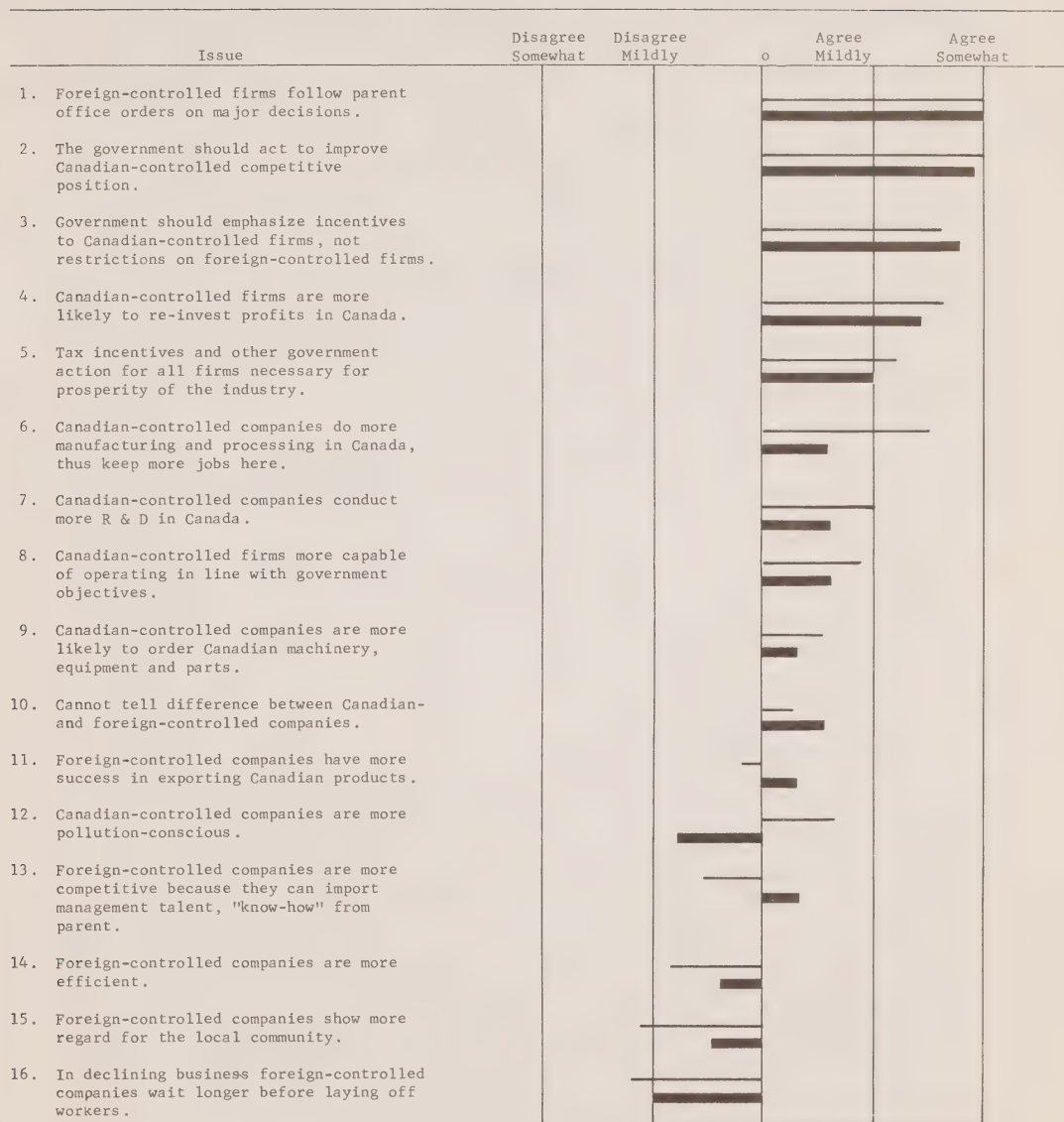
There are some differences in attitudes between employees of foreign-controlled and Canadian-controlled companies. The sharpest divergence of opinion occurs in the perceptions of corporate behaviour of both foreign- and Canadian-controlled firms. Exhibit 21, overleaf, illustrates these differences for employees in the manufacturing and resource sectors. The employees of foreign-controlled companies do not appear as ready as do employees of Canadian-controlled companies to consider that foreign-controlled corporate behaviour is "bad" or that Canadian-controlled corporate behaviour is "good".

The difference in opinion might stem from a tendency, or desire, of Canadians in general to believe that Canadian-controlled companies are

EXHIBIT 21

OPINIONS RELATED TO OWN INDUSTRY

ALL EMPLOYEES IN THE MANUFACTURING AND RESOURCE SECTORS



— Employees of Canadian-controlled companies.

— Employees of foreign-controlled companies.

better corporate citizens than are foreign-controlled companies, but their tendency to hold this view in different amounts depends on their work experience. Employees of foreign-controlled firms have had more direct experience with foreign-controlled firms, and thus might be considered to have more "informed" views about foreign-controlled company behaviour than employees of Canadian-controlled companies. Since their experience with foreign-controlled firms has not been undesirable, employees of foreign-controlled companies may be less apt to believe the idea that Canadian-controlled companies are better corporate citizens than are foreign-controlled companies.

There may be other explanations for these differences in opinion between employees of Canadian-controlled and foreign-controlled companies in attitudes toward corporate behaviour; they are the only subject area where there are significant differences in attitude between the two groups of employees.

Little Sentiment Against
Foreign-Controlled Companies

When asked directly to compare foreign-controlled versus Canadian-controlled company behaviour, there was, as noted above, a tendency to favour Canadian-controlled firms. However, there was no overwhelming bias against foreign-controlled companies exhibited in the survey. Employees working for foreign-controlled companies were generally satisfied with their jobs and did not feel that their companies were greatly controlled from the foreign head office. In addition, the

"write-in" comments and the replies to the "prefer Canadian-controlled company" question both indicated that employees were not overly concerned about the behaviour of foreign-controlled companies when considering them relative to Canadian-controlled companies.

The results of the statements requesting "agreement" or disagreement" to various aspects of corporate behaviour showed that employees of Canadian-controlled companies generally attributed positive behaviour to Canadian-controlled companies relative to that of foreign-controlled companies. While these opinions could be interpreted as indicating some feeling against foreign-controlled companies, it is felt that they could also be construed simply as a positive expression toward Canadian-controlled firms.

The survey also showed that employees of foreign-controlled firms believe (although less strongly than do employees of Canadian-controlled companies) that foreign-controlled companies behave less well than Canadian-controlled companies. These opinions could be interpreted as indicating that although employees of foreign-controlled companies are happy in their jobs and consider themselves as nationalistic as employees of Canadian-controlled companies, they feel that the foreign-controlled companies are not always acting for the greatest benefit to Canada. While employees are not against foreign-controlled companies as employers, they are perhaps less satisfied with them as good corporate citizens of Canada.

The "write-in" comments provide additional insight into this question. From the comments received, there were few clear views on whether foreign-controlled company corporate behaviour was desirable or not - the issue was selfom dealt with explicitly. When it was mentioned, the typical opinion was that all companies are alike since they all have similar economic objectives, and only occasionally did employees perceive some differences in corporate behaviour. Employees did not seem to place any particular blame on the behaviour of foreign-controlled companies, and seemed more affected, when they voluntarily "wrote in" their comments, by general issues relating to foreign ownership and economic independence.

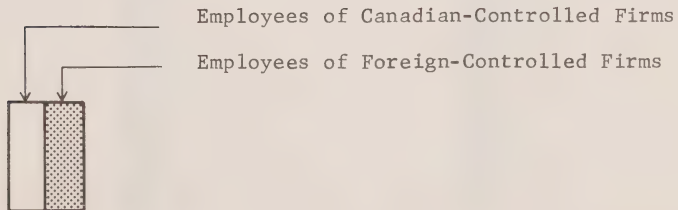
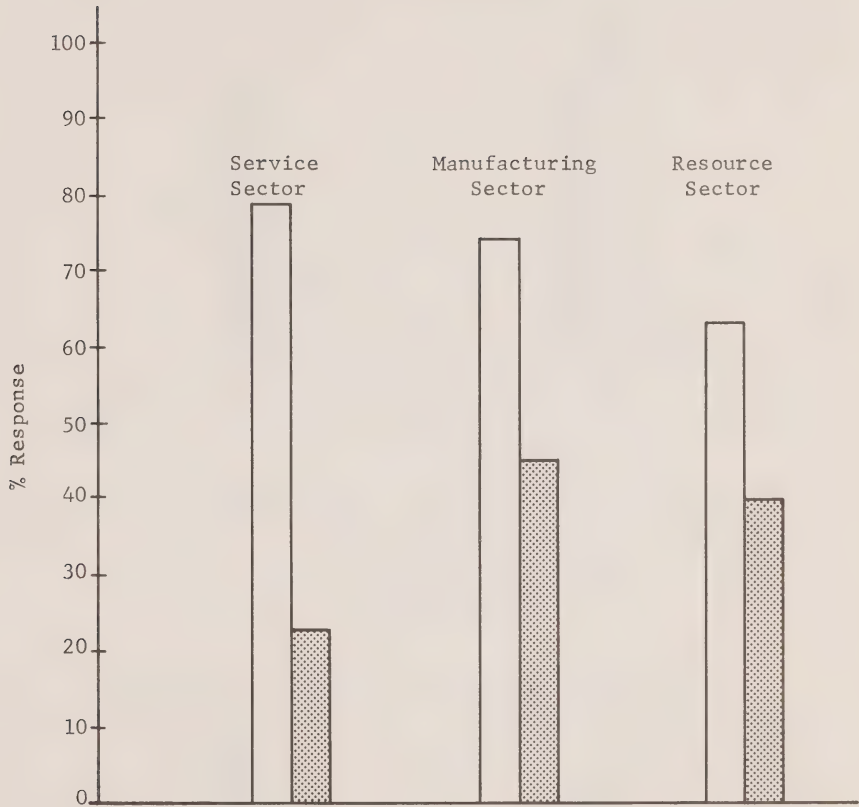
The "prefer Canadian-controlled company" question results are shown in Exhibit 22, overleaf. The noticeably smaller proportion of employees of foreign-controlled firms who agree with their counterparts in Canadian-controlled companies in preferring Canadian-controlled firms would appear to illustrate a lack of substantial anti-foreign controlled company sentiment by these employees. The interpretation of these results could be that employees like the company they work for, whether it be foreign- or Canadian-controlled.

Pro-Canadian Sentiment

Another general conclusion about the survey results is that there appears to be a general nationalistic sentiment among all employees. There is substantial feeling that more government action is needed to maintain the competitive position of Canadian-controlled firms and

EXHIBIT 22

PREFERENCE FOR WORKING IN A CANADIAN-CONTROLLED FIRM



similarly that government should use incentives to foster the development of Canadian-controlled firms. Most employees state that they are nationalists (see Exhibit 23, overleaf), and most feel that we should do something to reduce our dependence on the United States. In the "write-in" opinions section, the pro-Canadian sentiments appeared in many ways, ranging from protecting our natural resources to Canadianizing our unions.

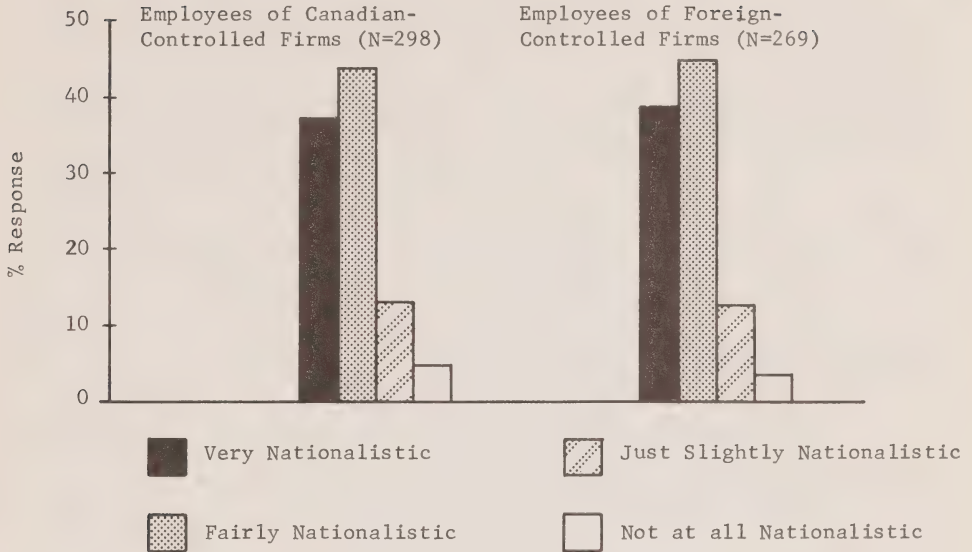
These results could be interpreted as showing that employees perceive that the effects of foreign ownership itself are far reaching. However, there are probably many factors influencing employees' basic pro-Canadian sentiment besides a reaction against foreign ownership. These factors could include educational and historical influences, as well as the influence of the strong U.S. cultural overflow into the country. Therefore, while there is a pro-Canadian sentiment expressed, it is not necessarily appropriate to single out foreign ownership as the prime cause of this sentiment.

Our conclusion is that, since the pro-Canadian sentiment is expressed throughout the survey, it must be an underlying theme in the attitudes of the employees surveyed. It leads, in turn, to a desire for actions by government and others to retain control in Canada over our economy and society, and to a concern that foreign ownership may negate this control.

EXHIBIT 23

NATIONALIST SENTIMENT

A: EMPLOYEES' FEELINGS ABOUT CANADA



B: EMPLOYEES' FEELINGS ABOUT BEING A CANADIAN
NOW COMPARED TO FIVE YEARS AGO



ATTITUDES IN FOUR
ONTARIO COMMUNITIES

The survey of four Ontario communities was conducted in the spring and summer of 1973. There were two parts to the survey - the first was a relatively unstructured interview of 32 community leaders in the four towns, and the second a structured home interview of a random sample of 100 people in each community. In the report, the communities were identified only as "#N, #S, #E, #W", respectively, to avoid confidentiality problems regarding firms in the communities which were included in the industry sub-studies.

The community leaders interviewed included elected municipal officials, media people, union officials, business leaders, heads of women's groups, fund-raising organizations and religious institutions, and public education officials. The interviewer used a checklist of the subjects to be covered in each interview, as outlined below:

- whether the residents of the community are overtly aware of, or care about, foreign ownership
- whether there is an overall "chain reaction" effect from foreign ownership
- whether U.S. ownership or foreign ownership per se is the more relevant issue
- whether the larger foreign-owned companies have contributed to the community
- whether more foreign ownership is encouraged by the community
- whether foreign ownership will ultimately lead to formal union (economic and/or political) with the United States

- whether any currently foreign-dominated industries should or could be rendered more Canadian through take-overs of foreign-owned firms by Canadian interests
- whether the government should do anything about foreign ownership.

The general public survey contained a structured questionnaire which was divided into the following areas:

- How important is the question of foreign ownership of industry, when viewed in relation to Canada and the national economy?
- How important is the foreign ownership issue when viewed in relation to the respondents' own communities and their local economies?
- How important is foreign ownership when respondents put it into a personal context - that is, when they view it in terms of its impact on their jobs, companies, and employers?
- What are the respondents' views on the government's past record on the ownership issue, on future action, and on the value of a screening agency?

Context of the Small Town Surveys

The surveys were designed to be complementary to the main study of behavioural differences between foreign- and Canadian-controlled firms. They attempted to document the opinions of the general public and community leaders in representative Ontario communities with regard to the general issue of foreign ownership, differences, if any, in the behaviour of foreign- and Canadian-controlled companies, and the impact of any such differences to the country, the community and the individuals.

Part of the overall background is a series of Financial Post articles* which provides a journalistic account of various issues related generally to the alleged "cocacolonization" of Canada. The survey attempted to obtain a more specific reading of some of the issues raised in these articles, as well as issues raised in discussions with the Select Committee and during our research in specific industries. Such issues included community involvement on the part of foreign-owned companies and sentiments about working for foreign-owned firms. It should be noted that the scope of the survey was considerably narrower, but more specific and statistically controlled, than that usually followed in journalistic accounts. To some extent, particularly in the community leaders survey, it was possible to identify what foreign ownership actually means to people and how it relates to anti-Americanism and pro-Canadianism; it was not possible, however, to analyze in depth all the complex psychological associations that people seem to have with the concept of foreign ownership.

With regard to the more specific question of the behaviour of foreign-owned firms, the survey results are relatively more clear, and conclusions can be drawn from them with more confidence.

Community Representatives

The four communities were selected to represent a range of "typical" attributes of Ontario communities in the 15,000-100,000 popu-

* Compiled in a book by Robert L. Perry, Galt, U.S.A. (Toronto: MacLean-Hunter Ltd., 1971).

lation range, as described in the report on this survey. From the survey, it is apparent that each of the communities is quite different and each has its own community "soul". Based on the sample, one community in Southern Ontario could be said to be quite favourably disposed toward the United States; one has a more impersonal, suburban orientation; one is particularly conscious of its own future as a distinct community; and one is a resource-dependent community in Northern Ontario with relatively less certain economic conditions.

Thus, these communities are fairly distinct in themselves, and in one sense cannot be said to be representative of Ontario communities: for there is probably no such thing as an "average" Ontario community. In another sense, the towns are typical, or at least similar, since there is a degree of similarity in attitudes toward many basic questions. Therefore, while there would probably be degrees of differences between these communities and others - in some cases significant ones - the results from the surveys of the four towns may be considered to be a fair representation of small- to medium-sized urban centres in Ontario.

There is one possible exception to the broad representativeness of the four towns selected. The four in the sample do not appear to have included communities that have had obvious problems with foreign-owned companies. Perhaps there exist very few or no cases where residents feel that foreign-owned companies have behaved very badly, (for example, shutting down operations in the community as a result of a decision by corporate headquarters). Clear-cut cases of such undesirable corporate behaviour were not found in the communities selected.

Attitudes Toward
Foreign Ownership and
Foreign-Owned Companies

The survey included questions about awareness of and concern about the impact of foreign ownership on a general basis and on the community, and the impact of foreign-owned companies on the community relative to that of Canadian-owned firms.

From both the community leaders survey and the general public survey, it is apparent that foreign ownership problems are considered to be relatively less important than issues with a more immediate impact, such as unemployment and inflation. Exhibit 24, overleaf, shows that in terms of problems, the subject that is closest to the foreign ownership issue is "American influence", which is the 19th most frequent mention of problems.

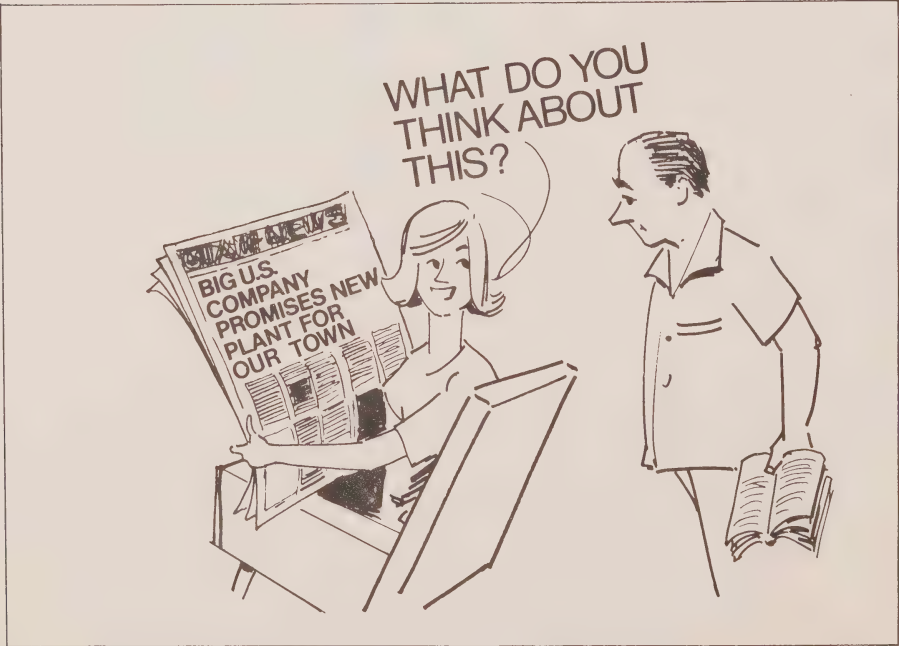
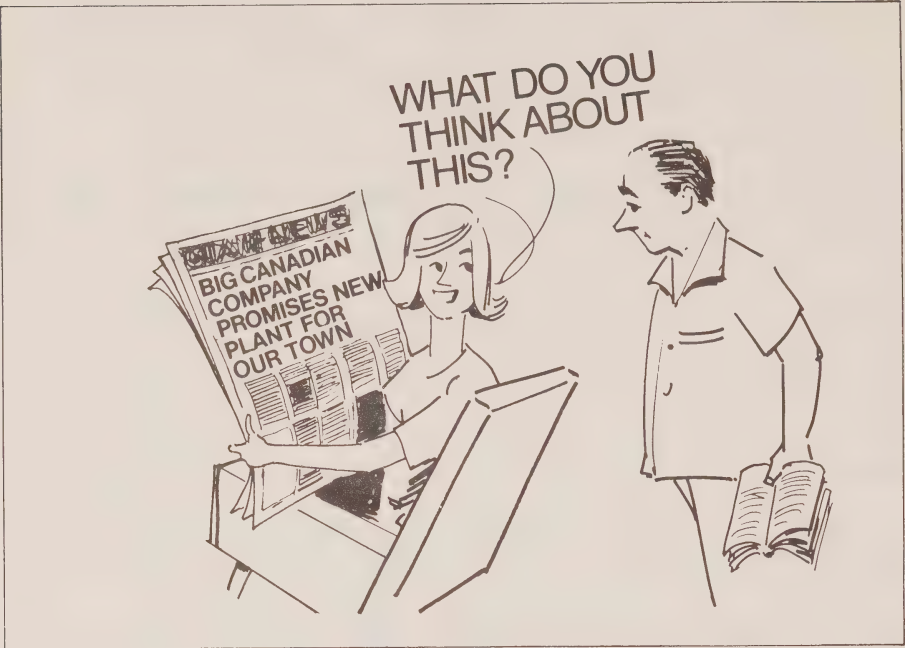
When probed about whether they worried about foreign ownership, many community leaders showed significant concern about the overall impact of foreign ownership. They seemed to hold the basic premise that Canadian identity and autonomy should be preserved and that government action should be taken if foreign ownership should threaten these values. When probed, the general public seemed to be against further foreign ownership locally and nationally, and for more government action to this end.

Exhibit 25, overleaf, shows two cartoons - one referring to a Canadian company moving to the respondent's town and one to a U.S. company locating in his town. Half of the respondents were shown one cartoon and

EXHIBIT 24PROBLEMS PERCEIVED TO BE OF GREATEST CONCERN

Problems	Average Ranking	% OF RESPONDENTS MENTIONING EACH ISSUE				
		Average	#N	#S	#E	#W
High cost of living/ inflation	1	37	56	28	36	27
Pollution/ecology	2	20	23	15	13	29
Unemployment	3	19	32	10	9	26
High cost of food	4	19	16	29	12	17
Drug abuse	5	17	14	6	21	29
Government policy/ expenditure	6	11	6	12	15	14
Welfare/welfare abuse	7	10	11	4	8	18
Crime/law and order	8	9	4	7	10	15
High taxes (unspecified)	9	9	6	10	13	7
Education/schools	10	8	10	4	10	9
American influence	19	3	4	1	2	4

CARTOON PROMPTS TO ELICIT RESPONSE ON A NEW
FIRM OPENING IN TOWN



half were shown the other; as indicated in Exhibits 26, opposite, and Exhibit 27, overleaf, there was a significantly higher positive response to the Canadian company.

With respect to the behaviour of foreign-owned companies in small communities, the survey shows that foreign-owned companies are perceived by both community leaders and the public at large to be good corporate citizens. The general public survey revealed that the corporate image of foreign-owned companies was equal or superior to that of comparable Canadian-owned companies. Significant numbers of the general public respondents were quite prepared to work for foreign-controlled firms, even though they had more general concerns about the overall effects of a high level of foreign ownership in Canada's economy. Although respondents generally felt that there were more advantages to Canadian ownership than to foreign ownership in the local community (see Exhibit 28, overleaf), the specific effects of existing foreign-owned companies were generally felt to be positive.

Suggested Interpretation of Survey Results

As described above, there appeared to be general concern about foreign ownership expressed by both the general public and community leaders. From the open-ended interviews of community leaders, it was apparent that foreign ownership was associated with general sentiments such as nationalism and possibly anti-Americanism. It would therefore be difficult to isolate the question of foreign ownership from these broad issues in an interpretation of the community leaders' responses.

EXHIBIT 26

RESPONSE TO CARTOON PROMPT
THAT REFERS TO CANADIAN FIRM
(PERCENT)

Response	Average Ranking	Average	#N	#S	#E	#W
Provides employment/jobs	1	50	48	51	41	62
Good/great (unspecified)	2	37	21	30	42	55
Good for community/ specific areas	3	18	18	10	27	18
Keeps taxes down	4	13	*	7	41	5
More business in community/area	5	10	8	10	11	12
What kind of plant	6	9	10	8	12	6
Don't believe - just promises	7	9	24	9	3	*
Not interested/ doesn't matter	8	5	4	7	10	2
Good if not polluting	9	5	3	10	5	2
Raises cost of living/housing	11	4	6	*	4	6
Miscellaneous negative	12	4	5	*	4	5

SUM OF POSITIVE AND NEGATIVE REPLIES

Positive	133%
Generally negative and neutral	31%

(Percentages add to more than 100% because of multiple answers)

Kates, Peat, Marwick & Co.

EXHIBIT 27RESPONSE TO CARTOON PROMPT
THAT REFERS TO U.S. COMPANY

(Per cent)

Response	Average Ranking	Average	#N	#S	#E	#W
Provides employment/jobs	1	36	28	33	42	42
Good/great (unspecified)	2	17	16	18	10	24
Too much/growing U.S. control (N)	3	16	16	16	21	12
Prefer Canadian company (N)	4	14	20	1	14	19
Too many, don't want any more U.S. companies (N)	5	13	12	9	15	15
Good for community/ specific area	6	11	21	6	10	9
More business in community/area	8	7	7	7	2	10
We need Americans/Cana- dians won't invest here	7	7	1	5	14	6
Keeps taxes down	9	6	*	5	18	2
Against foreign owner- ship (N)	11	6	6	*	9	7
Money/profit should stay here (N)	10	6	10	6	1	7
Don't know/not stated	12	5	*	18	2	*

Note: (N) refers to a basically negative reply with reference to foreign ownership.

SUM OF POSITIVE AND NEGATIVE REPLIES

Positive	84%
Generally negative or neutral	5%
Negative re foreign ownership	55%

(Percentages add to more than 100% because
of multiple answers)

Kates, Peat, Marwick & Co.

EXHIBIT 28

SUMMARY ADVANTAGES/DISADVANTAGES
OF CANADIAN OWNERSHIP TO LOCAL COMMUNITY

	Average	#N	#S	#E	#W
Total Interviewed (Not stated=38 interviewees)	91	98	77	96	92
Advantages Only	49%	46	51	47	50
Disadvantages Only	2	1	4	1	-
Both	40	48	22	39	50
"No advantages" and "No disadvantages"	10	4	23	13	7

SUMMARY ADVANTAGES/DISADVANTAGES
OF FOREIGN OWNERSHIP IN LOCAL COMMUNITY

	Average	#N	#S	#E	#W
Total Interviewed (Not stated= 56 interviewees)	86	94	74	92	84
Advantages Only	19%	20	27	16	14
Disadvantages Only	13	19	15	7	12
Both	60	58	43	67	72
"No advantages" and "No disadvantages"	8	3	16	11	1

ATTITUDES TOWARD MORE GOVERNMENT ACTION ON FOREIGN OWNERSHIP

(PERCENT)

GOVERNMENT SHOULD DO MORE	Average	#N	#S	#E	#W
Yes	73	82	61	77	71
No	27	18	39	23	29
SOME INDUSTRIES MORE IMPORTANT					
Yes	51	65	41	55	42
No	21	17	20	18	28
Not Stated	1	*	*	4	1
INDUSTRIES FELT MORE IMPORTANT (Among those who felt government should do more - i.e. 72.9%)					
Oil Refining/Petroleum	13	17	4	14	19
Automobiles	14	5	20	18	14
Natural Resources	18	20	6	25	21
Mining	15	46	3	7	6
Lumber/Pulp/Paper/Forest Products	12	18	13	8	8
Gas	9	11	6	6	12
Steel - Ore/Metal	6	5	14	1	6
Food/Food Processing	4	4	*	9	3
Textiles	1	3	*	*	*
Chemical Plants	3	1	8	1	2
Farming/Agriculture	3	14	*	*	*
Hydro	2	*	*	2	6
Electronics	2	3	4	2	*
Environmental Polluters	3	2	3	2	*
Construction/Housing	4	8	*	6	3
Unspecified Manufacturing	2	4	*	3	2
All Industries	3	*	9	*	2
Miscellaneous	18	19	9	26	16
Don't Know/Not Stated	2	2	2	1	5

The structured nature of the general public interviews provided a more quantifiable indication of attitudes toward foreign ownership and indicated (with somewhat more emphasis by younger respondents) that there is a definite preference for Canadian ownership. On the basis of discussions with the community leaders, we would interpret the general public's attitudes toward foreign ownership as representing broad Canadian nationalism and possibly some anti-American sentiment.

One area of specific concern that exemplified the nationalism sentiment was the opinion that foreign ownership could reduce our ability to manage our natural resources in the best interests of Canadians. This was a recurrent theme in the community leaders survey, and the resource industries are those most readily identified as worth "buying back" by the general public (see Exhibit 29, opposite). The typical respondent seemed to be saying that Canada is not getting enough for its natural resources and that the country should preserve and manage them for its own use through more direct control.

A possible interpretation of the survey results is that foreign ownership is a "motherhood" issue. Respondents, as good Canadians, might be somewhat reluctant to support foreign ownership. However, the community leader interviews tend to illustrate, through individual expressions of sentiment, that pro-Canadian attitudes are genuine.

Another broad interpretation could be that Canadians are used to the amount and manifestations of foreign ownership that presently

exist in Canada. Community residents seem to accept it as a fact of life, and they explain its necessity by their feeling that Canadians are not risk-takers and have not been providing sufficient entrepreneurial leadership in the economy. What they seem also to be saying, however, is that the future impact of foreign ownership may not be as acceptable as it has been up to the present, particularly if the level and/or impact of foreign ownership continues to increase.

In summary, both community leaders and the general public in the surveyed communities may be described as feeling that, while individual foreign-controlled firms are usually beneficial to the community, the cumulative impact of foreign ownership is now a matter of concern to them, and government action is warranted to ensure that Canadians remain in control of Canada's resources, its economy, and its national identity.

There is no indication that foreign ownership has reached a crisis condition in the public's mind, but mixed with a willingness to live with foreign-owned companies is a gut feeling of nationalism. The expectation seems to be that government should take some action to limit the possibly undesirable cumulative impact of foreign ownership.

COMPARISON WITH OTHER OPINION SURVEYS

In order to provide additional perspective on the results of the two surveys conducted by the study team, we looked at comparable surveys that others had undertaken. We wanted to compare our results

with those of other contemporary surveys, and to review how, if at all, attitudes have changed over the years.

Present Situation

There are a number of surveys which have been undertaken in the last two to three years regarding what the general public thinks about U.S. investment, ownership or general economic and political influence, as well as what government should do about it. Citing a few of these tends to confirm the results of our two surveys on parallel or identical questions.

The Gallup Poll questions were used on both surveys in order to have a basis of comparison with opinions of the general public. The results of our two surveys are shown, along with the general public attitudes, on Exhibit 30, overleaf.* It appears that about the same number of our surveyed population felt that there was enough U.S. investment now compared to the general Ontario Gallup Poll public survey. The employees and residents of four Ontario communities were somewhat more emphatic than the general public surveyed by the Gallup Poll (conducted prior to the Federal election) about a screening mechanism. These results support the conclusion that when the public at large is asked directly, concern is expressed about foreign ownership.

Our surveys went beyond the simple direct questions of concern about foreign ownership or U.S. influence and asked how concerned people were about foreign ownership relative to other issues. The University of Windsor conducted nation-wide surveys about Canadian attitudes toward

* The Gallup Poll of Canada, Canadian Institute of Public Opinion.

COMPARISON OF GALLUP POLL QUESTIONS

"Do you think there is enough U.S. capital in Canada now, or would you like to see more U.S. capital invested in Canada?"

	Gallup Poll Canada - 1972	Gallup Poll Ontario - 1972	Employee Attitudes - 1973	Four Ontario Communities - 1973
Enough Now	67	73	67	69
Like More	22	18	16	15
Undecided	11	9	17	16

"It has been suggested that the government should set up an organization to screen the introduction of more foreign capital into this country, with the object of checking to see whether or not the investments will serve the best interests of Canada. Some people think this is a good idea. Others disagree, and say it is not. What is your opinion?"

	Gallup Poll Canada - 1972	Gallup Poll Ontario - 1972	Employee Attitudes - 1973	Four Ontario Communities - 1973
A Good Idea	69	67	75	84
Not a Good Idea	15	14	14	8
Undecided	16	19	11	8

U.S. investment for the years 1969-1971.* One result of the 1971 survey that was parallel to our own survey results was the relative importance of other issues as opposed to that of foreign ownership. Unemployment, environment and pollution problems, and inflation all rated more concern than "Canadian/American relations" in Ontario as well as in the rest of Canada.

In 1971, the respondents to the University of Windsor survey were asked "whether U.S. ownership of Canadian companies has a good effect or a bad effect on our economy". At that time, the replies indicated there were slightly more Canadians who felt it was a "bad thing" than those who felt it was a "good thing", as shown below:

	Total Canada	Ontario
All respondents	5,000	1,820
Bad thing	44%	45%
Good thing	39%	39%
Qualified - both good & bad	7%	8%
No opinion	10%	7%

Further questions in the University of Windsor survey showed that the main reasons people believed that the U.S. ownership of Canadian companies was "a good thing" was that it creates more employment, that we need outside investment, and that Canadians are not willing to invest in their country. The main reason for U.S. ownership being "a bad thing"

* J. Alex Murray and Mary C. Gerace, Canadian Public Attitudes toward U.S. Investment: a Longitudinal Analysis, Working Paper No.702, International Business Studies Research Unit, University of Windsor.

was a general feeling of Americans taking over our economy and Canadians should control their own business/economy. The responses evoked by this question are quite similar to the replies of respondents in the surveys administered to employees and the general public in four Ontario communities.

We conclude that these other survey results corroborate our results for at least some of the questions asked the general public of four towns and employees of companies studied. If anything, the employee and community surveys, conducted toward the middle of 1973, show a hardening of attitudes in favour of economic independence.

Evolution of Canadian Nationalist Thinking

There are various other indications that Canadians have become more nationalistic in their attitudes in the last decade. For example, our employee attitude survey showed that the majority of respondents are more nationalistic than they were five years ago.

To show what the mood was like in the early 60's, we refer to an article about an opinion survey published in MacLean's magazine.* As excerpted responses below illustrate, while Canadians on the whole did not want to join the United States, they basically agreed to an economic union with the United States.

* MacLean's Magazine, June 6, 1964.

<u>"Should Canada join the U.S.?"</u>		<u>"Should Canada enter an economic Union with the United States?"</u>	
"strongly for"	12%	"say yes strongly"	33%
"for"	17%	"say yes"	42%
"do not know"	9%	"do not know"	10%
"against"	21%	"say no"	13%
"strongly against"	41%	"say no strongly"	12%

These results would seem to indicate that Canadians at that time preferred the distinctiveness of their own country, but that only a minority of us were economic nationalists.

The Gallup Poll has asked the question about U.S. capital in Canada over the years (the same one used in our surveys). The responses indicate a shift in opinion toward the attitude that we should not encourage more U.S. investment here. The results over the past eight years have been as follows:

"Do you think there is enough U.S. capital in Canada now, or would you like to see more U.S. capital invested in Canada?"

	<u>Enough Now</u>	<u>Like More</u>	<u>Undecided</u>
1964	46%	33%	21%
1967	60%	24%	16%
1970	62%	25%	13%
1972	67%	22%	11%

EXHIBIT 31

OPINIONS AS TO WHETHER U.S.
OWNERSHIP OF CANADIAN COMPANIES HAS
A GOOD EFFECT OR A BAD EFFECT
ON OUR ECONOMY (THREE-YEAR ANALYSIS)

	1971		1970		1969	
	Total Canada	Ontario	Total Canada	Ontario	Total Canada	Ontario
All Respondents	5,000	1,820	5,000	1,745	5,000	1,745
Bad Thing	44%	45%	41%	46%	34%	37%
Good Thing	39%	39%	38%	35%	43%	38%
Qualified - both Good and Bad	7%	8%	13%	11%	7%	8%
No Opinion	10%	9%	8%	8%	16%	18%

SOURCE: University of Windsor, op. cit. p. 166.

NOTE: Figures add to more than 100 per cent in some cases because of rounding errors.

Kates, Peat, Marwick & Co.

Other more general U.S.-Canada relations questions asked in Gallup Poll surveys seem to indicate that there has been a shift in Canada's feelings about the United States, particularly since President Nixon's new economic policies (e.g. the ten per cent surcharge on imports announced in late summer, 1971). Just after President Nixon's visit to Ottawa, where he promised that the United States would respect Canada's separate identity, 40 per cent of Ontario residents surveyed felt he was "not sincere" compared to 46 per cent who answered "very sincere" (20 per cent) or "fairly sincere" (26 per cent); 14 per cent expressed no opinion. In a Canada-wide survey at about the same time, 35 per cent of respondents felt Americans think of Canada as a "colony", as opposed to 37 per cent believing that Americans think of us as a "partner". Finally, a Canada-wide survey revealed that 19 per cent of Canadians feel "less friendly" toward the United States than a year ago, while only eight per cent felt "more friendly" (with 68 per cent "the same" and five per cent undecided). From the answers to these three questions, it could be concluded that there is now a stronger element of doubt than existed previously about how much Canadians can remain economically independent from the United States.

With respect to foreign ownership, as noted above, the University of Windsor conducted the same survey over a three-year period from 1969 to 1971. The opinions as to whether U.S. ownership is good or bad are shown on Exhibit 31, opposite. Although the time series is compressed into three consecutive years, there appears to have been a trend toward

greater economic nationalism in all of Canada. Ontario shows a reversal in 1970, but a more nationalist shift in public opinion from 1969 to 1971 seems to have occurred.

Thus, Canadian attitudes appear to have changed at least in the last decade, and this change would probably confirm the layman's observations about the evolution in the country's attitudes. What the surveys do not tell us is why attitudes have changed. Is it because the media and certain politicians have played up the foreign ownership issue? Is it a result of a growing national identity in Canada, especially in view of a tarnished vision of the good life in the U.S.? Is it a growing feeling that our own economic and psychic well-being is not as well served as it could be if we had greater economic, cultural and political sovereignty? The companion question is whether foreign ownership as an issue can really be separated from American influence or domination. All that can be concluded is that for whatever reasons, there appears to be a growing sense of economic nationalism in Ontario, and apparently, with varying degrees of intensity, in the rest of the country.

ATTITUDES OF OTHER LEADERS

As stated above, the other leaders refer to senior businessmen, academics, government officials, and labour leaders, who were

interviewed as part of the six industry studies and in addition to these studies. The 30 separate interviews gave us exposure to:

- attitudes toward various issues related to foreign ownership
- informed opinion that contributed to our overview findings.

The interviews themselves were supplemented by readings (periodicals, books, essays, newspaper articles, Select Committee hearings etc.) and our impressions are formed by a combination of the interviews and readings.

A further important consideration is that the interviews were conducted primarily in the first half of 1973. They were largely unstructured, and the spectrum of issues covered included the following:

- capital availability and capital market capability; "buy-back" policies
- entrepreneurial capability and venture capital availability
- behaviour of foreign-controlled vs. Canadian-controlled companies
- R & D and innovation capability
- relationship of exports of manufactured goods to development of natural resources; control of natural resources
- tariff policies, trading arrangements
- "buy Canadian" policies - government and corporate
- Canadian versus international unions
- screening mechanism or other government interventions.

A summary of all viewpoints on all issues would not be particularly useful, since the opinions are widely varied and unstructured. In addition, what we learned is reflected in the concluding section and in other parts of this report and in the comparison volumes of industry sub-studies.

The results of these interviews are presented by describing some general business attitudes, and, to add perspective, by presenting portions of a survey of the Ontario industrial elite undertaken by a team at the University of Toronto,* as well as the results of the Canadian Chamber of Commerce survey.** Second, we interviewed a sufficient number of key people to report on a few of the more important issues regarding foreign ownership, as follows:

- viewpoints of economists on foreign ownership
- the role of banks in an economy that has a high degree of foreign ownership
- impact of foreign ownership on research and development and technological innovation
- emerging conflict between nationalism and international labour unions.

It is to be emphasized that we have not undertaken sufficient research to study each of these issues in detail, but there is sufficient material from our research to provide a general indication of viewpoints in each case.

* Makler, Harry M. and McKie, D. Craig, The Role of the Ontario Industrial Elite in the Economic Development of the Province, Institute for the Quantitative Analysis of Social and Economic Policy, University of Toronto, January 31, 1971.

** The Canadian Chamber of Commerce, Submission on Foreign Investment in the Context of a Canadian Industrial Strategy, April 1973.

Senior Businessmen

From our interviews of business leaders in the six industries, it is apparent that the viewpoint of businessmen is partly influenced by the industry in which they are working, in particular whether the industry is basically national, continental, or international in scope. Opinion of senior people within Canadian-controlled firms in the service industries was characterized by relatively highly nationalistic views. They appeared to want some measure of protection from foreign competition, although seldom did they recommend outright discriminatory protection. The service industry associations also expressed the same feelings, whenever they represented primarily a Canadian-controlled group of organizations. However, as one might expect when there were both foreign- and Canadian-controlled members of the association, other association officials were more neutral and did not tend to suggest protectionist measures.

From interviews with executives in the industries in which there is a great deal of United States-Canada trade, especially auto parts and pulp and paper, it was apparent that their thinking is largely continental. The executives seemingly with the least concern about foreign ownership were among those in continental industries. The "continentalists" were most apt to argue that there is little difference between Canada and the United States, and hence foreign ownership was not considered to be a problem.

The auto parts executives took it as a fact of life that the industry was American-based and that their operations were very much

part of the continental auto industry. The forest-based industries company executives realized that their markets are in the U.S. and that future expansion might also be in the U.S.

There was some feeling among auto parts manufacturers that Canadian operations might suffer in the future due to a more protective environment in the U.S. Although suppliers of a natural resource (albeit in manufactured form) to the Americans, pulp and paper executives had a similar concern; while they presently enjoy a prosperous market, we had the impression that Canadian-controlled companies, especially, were rather pessimistic about their (and Canada's) competitive position.

In industries with greater international trade and preoccupation in competing in world markets - electronics and mining industries in particular - the orientation was more international. In these industries, the activities of the Europeans, Japanese and other trading areas were important and there was somewhat less preoccupation with the U.S.

In the internationally-oriented industries that we studied, foreign ownership was somewhat of an issue in one case (electronics) and not in the other (mining).

In electronics, companies were concerned more about maintaining a viable Canadian industry than about who owned it, and depended on government support as well as tariff barriers to maintain and expand levels of production. There was some expression of concern about foreign

ownership, but the degree of concern depended in part on the relative advantages of Canadian ownership to the company from which the opinion was received. The emphasis, however, was on either strengthening Canadian ownership, or strengthening the Canadian electronics industry as a whole, with little or no favouring of outright discrimination against foreign-controlled companies in the industry.

In the other international industry, mining, the business was becoming more international, since the sources of supply were more dispersed around the world while they were formerly mostly concentrated in Canada. Foreign ownership was not much of an issue with mining company executives, since they saw little difference in the operations of foreign- versus Canadian-controlled mining companies. What was more of a "problem" was a stable political climate, translated into predictable government policies toward the regulation and taxation of the industry.

Business-
Government Relations

One of the central views expressed by those in the secondary and resource industries was the lack of enthusiasm for the proposed Federal Investment Review Act, or any direct government intervention regarding foreign ownership. This is reflected somewhat more officially by industry association briefs to the Parliamentary Committee hearings about the proposed Act. It was acceptable to have certain government assistance programs, loans, export promotion activities, R & D and the like, but not for government to interfere with the basic market forces and the operations of any given company. This view seemed to stem from

a general "free enterprise" premise that business, including international business, should be allowed to operate much as it sees fit.

If action was to be taken, businessmen preferred government to lay down fixed rules or guidelines, to which they could adhere. What they required was at least predictability in government actions to permit long-term resource commitments. Our interviews were conducted largely prior to the announced take-over of Texasgulf; therefore, the government ownership type of intervention was not sharply defined as a possibility. The attitude toward this type of government intervention that might be expected would be one of acceptance - as long as it does not directly affect the operations of private companies.

In general, senior executives expressed concern relative to foreign ownership. Sometimes, the concern was that nationalists had carried the issue too far, but an equally typical concern was that in some respects widespread foreign ownership was undesirable. The reality for most businessmen, however, seemed to be that while they could be concerned, they were creatures of their own executive positions within the companies for whom they worked, Canadian- and foreign-controlled. Since they had already "made it" their own careers would not be advanced if foreign ownership were reduced. As well, these senior businessmen did not generally feel that less foreign ownership would bring great advantages to the Canadian economy. It is possible that a mixture of these viewpoints contributed to their lack of enthusiasm for certain government initiatives with respect to foreign ownership.

Attitude Surveys of
Ontario Industrial Elite

During 1970 and 1971, a University of Toronto study team conducted a survey* of a representative sample of 176 heads of Ontario industrial firms, employing 100 or more persons and situated in the "Golden Horseshoe" of Ontario. Part of the survey asked about the attitude of the heads of companies toward foreign capital participation in Canadian industry.

One question was as follows:

"As a practical matter would it be possible to lessen our dependence on the U.S.?"

Nearly two-thirds of those interviewed replied "yes", while most of the remainder felt that the in-flow should be continued unabated. The authors of the study report that the favourite response of those saying we can be more independent was that "alternative sources of capital" would be the solution, followed in frequency of response by "government regulation" as the best solution. Some of the individual remarks were reproduced in the text and are shown on Exhibit 32, overleaf. These remarks show that some businessmen are nationalistic and some are not, and that opinions are widely spread.

Two other relevant questions were asked, as follows:

"American investment makes Canada politically dependent on the U.S.A."

(agree strongly, agree moderately, disagree moderately or disagree strongly)"

* Makler, Harry M. and McKie, D. Craig, op. cit.

EXHIBIT 32INDIVIDUAL REMARKSFAVOURABLE

I'm all for foreign investment.

Foreign investment should be admitted without limitations so long as they invest and spend in Canada and follow guidelines of the Canadian government. They should not send all the profit back to the United States.

Foreign investment is opposed by pseudo-intellectual university socialists.

We need money and the Americans have it.

Foreign investment has gone too far to limit it now.

We'd be cutting our own throats if American capital was cut off.

I don't consider the U.S.A. foreign. I'm a 'let's-join-the-U.S.A. type'; our industry is so closely aligned.

UNFAVOURABLE

We made a mistake years ago in not controlling it. I don't know if we can now.

Foreign capital is too involved in Canada. There is a loss of sovereignty. We need a policy badly. It's the greatest problem we face as a country; but there will be more outside investment.

I'm a Canadian. The United States has too much control. Americans put too much control on the workers.

Canada has been far too prepared to sell out successful Canadian enterprises for money, for example, Denison Mines.

There should be some kind of restrictions on foreign ownership. We should be maitre-chez-nous. We need to show more entrepreneurship characteristics.

The less educated people, those less responsible, who have the poorer jobs are actually urging us to become close to the United States. They are lured by glamour, the standard of living. They have a misinterpretation of what being closer to the United States means. . . . the people with more education and responsible and good jobs, for example, those in government, educators, businessmen, are in the know. . . . They are more responsible and attempt to judge and forecast what could be the implications of U.S. influence.

SOURCE: Makler, McKie, P. V-25, V-26, op. cit.

"Do you think that the participation of foreign capital in Canadian industry should:

- (a) only be admitted in certain industries with certain precautions
- (b) be admitted as long as it does not comprise the majority
- (c) be admitted without limitations?"

The responses to these questions are shown on Exhibit 33, overleaf. There are apparently some mixed feelings about political dependency, with the older executives, executives of larger companies, and those heading foreign companies tending to disagree with the statement. In the second question, roughly the same set of executives tend to disagree with controls, although more than half overall agree with some sort of limitation on the type of foreign investment.

This brief synopsis of a small part of a major study helps to place in context our impressions of senior businessmen's attitudes. Our interviews were largely with executives of large companies, and the Makler - McKie results indicate that this group may not be representative of all businessmen in terms of its views on issues related to foreign ownership. The Makler - McKie study was able to canvas a wider cross-section of businessmen; this larger group demonstrated a greater recognition of Canada's lack of economic independence and a greater interest in doing something about it. It is interesting to note, however, that while senior businessmen in the manufacturing and resource industries interviewed in the KPM&Co. study generally tended to be little

"AMERICAN INVESTMENT MAKES CANADA POLITICALLY DEPENDENT ON THE U.S.A."

(Percentage of Distribution)

	SOCIAL BACKGROUND CHARACTERISTICS OF THE ONTARIO INDUSTRIAL ELITE					ENTERPRISE CHARACTERISTICS				
	AGE		BIRTHPLACE			SIZE			NATIONALITY OF OWNERSHIP	
	Less Than 56 Years	56 Years or More	Canada	U.S.A.	Other	Small	Large	Canadian	American	Other
Agree Strongly	15%	7%	10%	4%	15%	20%	3%	16%	7%	5%
Agree Moderately	36	25	30	26	31	32	30	31	32	26
Disagree Moderately	27	29	27	26	35	32	23	27	27	27
Disagree Strongly	22	39	33	44	19	16	44	26	34	42
N =	(64)	(88)	(109)	(23)	(26)	(74)	(88)	(70)	(73)	(19)

ATTITUDES TOWARD PARTICIPATION OF FOREIGN CAPITAL

	SOCIAL BACKGROUND CHARACTERISTICS OF THE ONTARIO INDUSTRIAL ELITE					ENTERPRISE CHARACTERISTICS				
	AGE		BIRTHPLACE			SIZE		NATIONALITY OF OWNERSHIP		
	Less Than 56 Years	56 Years or More	Canada	U.S.A.	Other	Small	Large	Canadian	American	Other
With certain precautions	36%	12%	24%	24%	18%	25%	19%	24%	20%	22%
Does not comprise majority	36	49	43	24	54	51	35	49	37	44
Without limitations	28	38	33	52	28	24	49	27	43	34
N =	(64)	(84)	(105)	(21)	(28)	(76)	(83)	(70)	(71)	(18)

SOURCE: Makler, McKie, Tables V-3, V-4, op. cit.

Kates, Peat, Marwick & Co.

concerned about foreign ownership, there was measurable concern expressed by some businessmen, particularly among executives in the services industries.

Chamber of
Commerce Survey

During the fall of 1972, the Canadian Chamber of Commerce conducted a national survey of over 3,700 of its members regarding views on a number of topics, including foreign ownership. With a response rate of 29%, the results contributed to an overview impression of what businessmen think about various aspects of the subject.

In general, the Chamber's questions elicited a non-antagonistic response toward foreign ownership - there was more disagreement than agreement by Ontario members with the statements that "economic nationalism is a positive and worthwhile ideology and should be encouraged", and "future take-overs of Canadian business enterprises by foreigners should be prohibited"; and more agreement than disagreement with statements that, "further foreign investment is necessary if the Canadian economy is to grow rapidly", and "foreign ownership is not likely to be a problem in an industry unless it becomes larger than Canadian ownership". However, the Chamber of Commerce survey showed some agreement with the proposition that specific key industries in Canada should be protected and that, if foreign ownership is to be discouraged, then the correct measure would be to provide incentives to favour Canadian ownership. By and large, the respondents from larger corporations, and those from

foreign-controlled firms, tended to be somewhat less against foreign ownership than those working for smaller companies and those working for Canadian-controlled firms.

The Chamber of Commerce survey appears to agree with the Makler - McKie results in terms of the difference between larger and smaller firms' executives and executives of foreign-controlled versus Canadian-controlled companies. The Chamber of Commerce results show less support for Canadian economic independence, but this difference from Makler - McKie could be caused by the way in which each survey put the questions. Certainly, the Chamber's survey results, showing relatively less concern about foreign ownership among the large corporations' executives, generally agree with the opinions of those executives in the secondary and resource industries of the KPM&Co. study.

Viewpoints of Major Economists

To summarize the "economists" viewpoint toward foreign ownership in a few paragraphs requires a certain amount of over-simplification. Nevertheless, since we interviewed five economists and had the benefit of counsel from two outside economists throughout the study, we feel it important to attempt to describe the viewpoint of people in this field.

One of the central themes of some economists is that there are several misconceptions about the disadvantages of foreign ownership. For example, they point out that foreign-controlled firms generally

perform as well as comparable Canadian-controlled firms. In fact, it is argued that take-overs of Canadian-controlled companies by foreign-controlled companies may even improve the performance of the companies taken over. Any behavioural differences between foreign- and Canadian-controlled companies would likely be the result of the relative size and development of the company and the particular aspirations and objectives of management rather than a function of ownership.

These economists generally seemed to try to shift the emphasis away from the rhetoric on the foreign ownership issue, such as "branch plant economy" and "extraterritoriality", and toward some of the "real" economic and business problems. For example, some stated that take-overs by foreign-controlled firms are symptomatic of poor tax laws and the result of inadequate competition policies. Part of the solution suggested was to make Canadian firms more efficient, through emphasis on lowering tariff barriers, and develop institutions with more flexible financial instruments and more management capability, such as merchant banks.

The economists who approach foreign ownership as briefly summarized above, do have some advice specifically directed toward dealing with foreign-controlled companies. Their suggestion is to obtain the technological, management, and capital transfer that accompany direct foreign investment in a manner more to Canada's advantage than is presently the case. This they feel could be done through various licensing, joint venture, and other techniques that would have to be carefully developed for each industry. If the direct foreign investment "package" can be

broken down into component parts (i.e. R & D, management, product innovation, marketing, etc.) some of it can be purchased while other parts would be developed by Canadians. In this way, the Canadian economy would be less truncated - i.e. have more functions of all types carried out in Canada.

There are, of course, other economists, or political economists, with whom we have come into contact mostly through their writing, who have quite a different approach to foreign ownership. Their views are more widely reported and some of them have appeared before the Select Committee. In summary, the notion is that Canada has always been a "hinterland" economy, in which staples have been developed for the "imperial" economy (formerly Britain, and now the United States). Canada has developed a strong commercial business group, but a relatively weak manufacturing business leadership, which is now under U.S. company control. While this position was perhaps satisfactory during the special status days with the United States, it is no longer so. At present, some economists would argue that Canada is beginning to lose the little secondary manufacturing capability it has, and is undergoing "de-industrialization".

The solution, according to these economists, is not to make Canadian-controlled companies strong, for that would only be a replacement of one brand of foreign free enterprise managers with a domestic variety. Their solution is to greatly increase public control of the economy, particularly key resources and manufacturing industries.

The KPM&Co. study was not set up directly to resolve these rather diverging viewpoints. We feel that there is more to the question of correct economic action than to judge strictly in terms of economic performance, especially if one begins with the assumption that Canada should move toward greater economic independence. However, the case for massive government intervention and control of the economy - the other economist viewpoint - rests on more fundamental assumptions. Such government intervention would have to follow a radical shift in views held by both the public and business leaders, most probably to be revealed by national elections.

Bankers and
Financial Officials

In a number of interviews of senior businessmen we discussed the complaints by businessmen about the lack of support they have received from Canadian banks. There was a tendency to blame banks for financing foreign take-overs, providing money to foreign-controlled companies at cheaper rates than to Canadian companies which did not have as strong a credit rating, and for not playing a large enough role in financing the expansion or development of an independent Canadian economy. For these reasons, we interviewed four banking officials, as well as two venture capitalists.

Bankers interviewed generally disclaimed any responsibility on the part of the banking institutions for the high degree of foreign ownership in the country. They stated that banks loan money only on

a short-term basis, and the use of bank loans by foreign-controlled companies making investments in the country is minimal. In addition, through moral suasion, the government tends to prevent banks from lending to foreign-controlled companies who would borrow short-term money from the Canadian banking system for use by the company outside Canada when it can be obtained at cheaper rates in Canada.

Bankers also maintain that they attempt to assist the small businessmen (the really small and the medium to small) out of proportion to the profits gained from loans to small businessmen. They have acted in this manner again in part as a result of central bank moral suasion. Some officials admit, however, that there are still problems in providing the proper small business loan orientation and training to the branch managers throughout the country.

Some bankers state that they would like to get more into the venture capital business, but are restricted by the Bank Act, which currently prohibits equity investments of more than \$5 million. It has also prevented them from moving into leasing in a big way, which may in part explain why 80 per cent of leasing company assets are foreign-controlled.

Venture capitalists agreed with the bankers in supporting the view that there is ample Canadian money for small business investment. Venture capitalists scour the countryside for possibilities, and at present there is still an excess of supply over actual use. One leading

Canadian venture capitalist described how venture capitalists in Canada accept greater risks and become more involved in individual companies than their counterparts in the United States. The problem, according to him, is that there are few entrepreneurs and strong management teams associated with proposals that are reviewed by the venture capitalists.

Thus, it would appear that it may be too easy to blame the banking and other parts of the financial community for lack of capital to support entrepreneurial effort in Canada. There are perhaps some structural problems, alluded to by the banking officials we interviewed, as well as in the Gray Report. It also may be that the risk capital that exists will only be invested for relatively "safe" risky investments; as well, the lack of risk capital may in part stem from lack of confidence in the Canadian businessmen by Canadians, as shown by our attitude surveys and by Canada's historical reliance on foreign companies to provide risk capital as part of their equity investment in Canada.

A full evaluation of the banking industry's actions would require much greater study of the development of such financial institutions in Canada. The banking industry is highly concentrated in Canada and has had enormous influence in the growth of Canada's economy, especially in the early years. One wonders why, through participation in the decennial revisions of the Banking Act, banks have not promoted and government officials encouraged the development of Canadian banks into institutions that are fully merchant banks with a more dynamic role to play in the growth of the Canadian economy. Another avenue which appears to warrant study is greater use for Canadian economic growth of the very large sums invested in pension plans across the country.

One point of view of bankers that seems to merit attention results in part from the reality of government moral suasion in the banking industry. It was suggested that Canadian governments should exert pressure on foreign-controlled companies through moral suasion. The opinion was expressed that government should alter corporate policy through moral suasion rather than through legislation. Some also felt that the outside directors of foreign-controlled corporations, who are themselves Canadians, could begin to act as the "Canadian" conscience in matters of corporate policy affecting the company and future prosperity of the country. This would in effect be a private type of moral suasion.

Technological Innovation

Government and industry people knowledgeable about how technological innovation is achieved are pessimistic about its future in Canada.

As the Science Council has pointed out (11), Canada ranks a lowly 14th of 15 OECD countries in terms of innovation. The problem is felt to be caused primarily by the importation of technology by foreign-controlled firms who traditionally adapt products to Canadian conditions, rather than innovating in Canada. This situation is felt to be worsening as a result of a tendency for multi-national firms to centralize research and particularly product development.

Besides the inhibition to innovation in Canada as a result of the foreign ownership of much of Canada's high technology industry,

other handicaps were identified. The foreign ownership situation is aggravated, it was stated, due to the lack of real patent protection, and financial and capital backing for Canadian inventors. Others mentioned that licensing of technology by foreign companies to Canadian-based companies tends to bestow great competitive advantages on recipient companies, which inhibits Canadian innovation. Observers admit that there are no simple solutions to the problem of lack of innovation in Canada, but the first prerequisite is for government and industry to recognize the problem. Federal government efforts in the last several years to assist financially the research and development by private corporations are believed to be only a partial solution. R & D constitutes a small percentage of innovation costs and, therefore, the assistance has not been sufficient to produce large scale, sustained innovation. Particular company executives, who were recipients of various R & D program grants, confirm that the aid has been marginal for innovation in Canada.

It is further argued by the author of a Science Council report (11) that, although it is the small firm which can provide much of the inventive effort, it is the large firm which provides the "demand pull" stimulus to technological innovation. Innovative effort (not just R & D) by large corporations assists the development of smaller service companies, university departments, and suppliers that in turn produces a truly innovative climate. Similarly, government orders of technologically complex equipment that is to be developed in Canada help create and sustain the innovative climate.

Therefore, it is argued that it becomes even more important to have both large firms in Canada (regardless of ownership) and governments at all levels conduct more of their innovative activity in Canada, including the purchasing of components and services for this activity.

To some degree, the KPM&Co. interviews of people concerned about technological innovation in Canada were able to identify why the Canadian record is so poor. However, the interviewees were not able to identify comprehensively what should be done to provide for more innovation in Canada, and what the full benefits (other to the scientific and technical community) would be to the country.

Union Officials

During the study, several union officials were interviewed within the industry sectors and as community leaders in the four Ontario towns studied; beyond these contacts, academics and others knowledgeable about union movements in Canada were interviewed. While there was not a sufficient number of interviews to determine how widespread the support was for Canadian, as opposed to international unions, nor to explore fully other major issues with respect to Canadian unionism, we can report on some viewpoints on two major issues. The first concerns international versus Canadian unions, and the second is the perceptions of union officials regarding foreign-controlled companies.

One of the standard arguments on behalf of international unions seemed to be that they are necessary bargaining instruments when dealing

with multi-nationals with operations in several countries, particularly corporations straddling the Canadian/American border. This view is not completely accepted by some who would argue that co-ordination of collective bargaining can take place without the necessity of an international union. In addition, both parts of the international union try to influence each other, and develop support for certain lines of action. The Burke and Hartke bill, a strongly protectionist measure, was supported by the U.S. labour movement, although at least one international union withdrew support in deference to its Canadian affiliate. What worries some union officials is that the American wing tends to dominate the Canadian one and is insensitive to a Canadian identity.

Opponents of international unions cite CALURA figures which show a net cash outflow to the U.S. headquarters of international unions. However, Canadian officials of international unions claim they obtain their fair share in return through services rendered, and that they are also quite autonomous. Detractors of international unions would counter that the relationship is a dominant/subordinate one. An example quoted is a case in which the American head of the international union was reported to have come to Canada and asked the Canadian workers to return to work because their prolonged strike was not good for the United States economy. One union leader stated that about 75 per cent of workers would prefer strictly Canadian unions over international ones, although this figure would likely change according to the particular local and union involved.*

* The actual number of unionized Canadians belonging to international unions rose in proportion to those in strictly Canadian unions following the war, but has declined in the last few years, and now about 65 per cent of the total number of unionized Canadians are members of international unions.

Another viewpoint expressed was that international unions are "business" unions rather than "class" unions, and that the former operated basically in co-operation with the business community. The second kind were often more militant than the first, and had a stronger history in Canada than in the United States. Thus, the international unions tended to hamper indigenous development of unions which might have a different outlook than international unions. This particular, fairly political, viewpoint was not addressed by proponents of international unions.

A final issue regarding Canadian vs. international unions was the charge by Canadian nationalists that international unions tended to fragment union efforts in Canada. However, it was pointed out by international union spokesmen that international unions had the effect of consolidating various local unions in the union movement in Canada.

With some exceptions, union officials were against the further encroachment into Canada of foreign-owned companies. Even if there were certain drawbacks to international unions, contended these officials, unions were not nearly as important as corporations, and, therefore, foreign ownership of corporations was far more important than American influence in international unions. One stated that foreign ownership had become a recurrent theme in the meetings of his particular local.

Union leaders worried about the loss of jobs to manufacturing facilities in the United States and abroad. They were wary of Canadian-controlled firms expanding abroad, and thus exporting jobs (this concern on a very limited scale is similar to that expressed by American union officials about American multi-national companies expanding abroad). However, most concern was about foreign-controlled firms closing down operations and even some plants in Canada, to shift production outside Canada.

The other main resentment against foreign-owned firms expressed by union leaders was the occasional feeling of being treated particularly high-handedly in labour relations. Although instances appeared to be diminishing, there were still painful experiences recorded in which officials from the head office of a foreign-controlled firm would appear at the last minute at the negotiating table, lacking in understanding of the local situation. There were also examples of U.S. contract conditions being imposed on Canadian workers. One example of a U.S. solution being applied to a Canadian problem was the insistence on using the American formula to determine a cost of living adjustment in a contract.

The labour movement appears to be in a state of relative flux with respect to international versus Canadian unions, and with respect to dealing with the foreign ownership phenomenon. In addition, structural changes in the economy, with the growth of government and services

sectors and the relative decline of manufacturing and resource jobs, will influence future union movement developments in Canada on these two issues. We can anticipate a close monitoring by union officials of the decreased or increased job opportunities that may result from the continuing presence of foreign-owned companies and international unions in Canada.

IV - OVERVIEW AND COMMENTARY

The eight companion volumes to this Overview Report have presented in considerable detail the findings of the six industry studies and related opinion surveys. These findings were summarized in the previous two sections of this report.

As stated in the Introduction, our terms of reference did not include producing policy recommendations; the thrust of the study has been to produce factual material on behaviour and attitudes which will aid the Committee in its deliberations on possible policy initiatives by the Ontario Government (and, in cooperation, by the Federal Government) in the field of economic and cultural nationalism.

During the course of our interviews and fact finding, possible government initiatives were suggested by a number of observers. We attempted, where possible, to determine the opinions of business managers regarding such initiatives and, in a more general way, attitudes of the general public regarding the possible need for more government intervention in the field of foreign ownership. These findings are presented in the six industry reports and are summarized in Sections II and III of this report.

In this final section of the Overview Report, we attempt to draw together the findings of the six industry studies and the opinion surveys of community leaders and the general public. We relate these findings to a number of broader issues and comment on their significance in this context.

CORPORATIONS
AND SOCIETY

As pointed out in Section I of this report, and as illustrated in Exhibit 5, page 13, attempts to isolate the implications of foreign ownership on Canada's economy and society are complicated by the strong interaction of foreign investment with other policy issues. In attempting to understand this complex situation, it is useful to recall that the issue of corporate ownership must be viewed within the wider context of the role that the corporation, particularly the large corporation, plays in our society. Its major role is to serve as the principal means of production and distribution in our economy; however, the elements of corporate behaviour discussed in this study clearly raise many other facets of the corporation (whether it be privately or publically owned) as seen by individuals in their various positions as consumers, wage earners, workers, capitalists, parents, intellectuals and voters.

The man in the street, as a consumer, can reasonably expect that the corporation should be efficient and innovative, so that unit costs are kept low and improved products are made available at reasonable prices to meet the needs of the Canadian consumer. As an income-earner, the man in the street expects the corporation to provide gainful employment, with levels of remuneration, job satisfaction, upward mobility, and job security which are reasonable relative to his level of training and qualifications; in some cases, he also expects the opportunity of purchasing corporate assets, if he is so inclined and has the necessary savings or credit, so that he may earn income from the ownership of

capital as well as from his own labour. As a physical, breathing and begetting human being, he expects that the corporation will not produce unacceptable levels of environmental pollution and will husband our natural resources, both renewable and non-renewable, such that they are made available in amounts and at prices which are in the best short- and long-term interests of all Canadians. As a political being, he may see an important role for the corporation as a receptacle of wealth and power which is separate from government and therefore provides a balancing influence in maintaining the democratic process; the private wealth represented by large corporations and the cultural/research foundations which they sometimes set up may also provide opportunities for diversity in research and various forms of economic and cultural activities beyond those which are normally initiated and sponsored by governments. Or, politically, he may see the large corporation as a powerful economic and social policy lever which should be acquired, or at least strongly influenced, by government to help achieve society's goals and protect the democratic process.

A healthy private sector, operating within the appropriate framework of laws and government policy, would ideally produce the above benefits for society while avoiding the corresponding problems of high prices, shortages, poor products, low wages, stultifying jobs, layoffs, lack of capital investment opportunities, pollution, resource depletion, use of corporate profits for purposes which are of no benefit to Canadians, and erosion of the authority and/or responsiveness of government.

Government
Regulation

Acting in its role as the collective representative of society, government attempts, ideally, to regulate private enterprise such that the benefits are achieved as much as possible while producing, hopefully, few of the problems. Among its primary policy levers for this purpose in Canada are tariffs, competition and consumer protection legislation, provision of infrastructure and setting of freight rates, monetary policy, taxation, government purchasing, encouragement and initiation of technical innovation, education and training, regulation and pricing of energy resources, pollution abatement regulations, ownership and control of land, regulation of securities markets, and a host of other program areas, as listed in Exhibit 4, page 9. Use of these policy levers is complicated by the overlapping jurisdictions of the two senior levels of government (Federal and Provincial) in a number of important areas such as natural resources and energy, environment, transportation, labour, consumer protection, securities regulation, taxation, welfare, training, and others.

The challenge, in the context of this study, is to understand whether foreign ownership of corporate assets in Canada has a significant impact in helping or hindering our attempts to achieve the above benefits and thus avoid the problems. In understanding these matters and taking action in light of them, government should continue to recognize that private enterprise must have a stable and reasonable policy framework within which it can make the investments - often of large dollar amounts

over extended periods of time - which are required if the growing material needs of society are to be met efficiently and effectively.

The Large Corporation

An important participant in this situation is the large corporation. As always, sheer size tends to polarize responses: on the one hand, the man in the street may be impressed by the magnitude of the operation and may have a feeling of pride if he somehow identifies it as being "ours"; on the other hand, he may feel alienated because of its very size and the feeling that it is a juggernaut which is insensitive to the real needs of society, caters to the "lowest common denominator" and exerts too much power as a producer, employer, taste-setter, and user of resources. (The same types of alienation are often expressed toward "big government"; both the pro and con attitudes can be detected regarding government-owned or -controlled large corporations.)

The large corporation has produced a "management group" of highly trained business managers who, while responsible for the management of the enterprise, are not usually substantial stockholders in it. As such, they are primarily concerned with maintaining and improving the efficiency and effectiveness of the enterprise, as measured mainly by corporate profits and long-term growth, in achieving corporate goals. These aspects - large corporations and the management group they have produced - are significant in terms of the implications of foreign ownership, as discussed below.

IMPLICATIONS OF
FOREIGN OWNERSHIP

Concentration in
Large Corporations

One of the most impressive facts about foreign ownership in Canada is its concentration among large manufacturing corporations in this country. As illustrated in Exhibit 2, page 3, the assets of foreign-controlled firms are almost twice those of Canadian-controlled firms for corporations with assets of \$25 million or more (\$20.1 billion vs. \$10.3 billion) whereas the assets of foreign-controlled firms of smaller sizes total about \$7.4 billion, versus about \$8.3 billion for Canadian-controlled firms in this category, based upon 1970 data for those firms falling under the Corporations and Labour Union's Returns Act (CALURA).^{*} This pattern tends to repeat itself in most of the industries which we have studied. As noted earlier, this exhibit also shows a continuing upward trend from 1969 to 1970, the most recent years for which this information is available.

Given the wealth, prestige and impact of large corporations in our society, it might be expected that their being almost two-thirds owned by foreigners would have some impact on our national consciousness. We have found this to be the case, both in terms of management and public attitudes.

* Firms reporting under CALURA are those in the following manufacturing industries: food, beverages, tobacco products, rubber products, leather products, textile mills, knitting mills, clothing industries, wood industries, furniture industries, paper and allied industries, printing, publishing and allied industries, primary metals, metal fabricating, machinery, transport equipment, electrical products, non-metallic mineral products, petroleum and coal products, and miscellaneous manufacturing.

Among many managers (but with a healthy number of exceptions) there was expressed the feeling that, unless the rules are changed, it is difficult for smaller firms (more typically Canadian-owned) to compete with the large firms (more typically foreign-owned). Among the advantages ascribed* to the large firms that were also foreign-owned were:

- greater liquidity and a better credit rating
- better ability to "ride out" recessions and retain markets by selling at a loss for some periods of time if necessary
- access to technological innovation, both in terms of new products and for greater production efficiency, from foreign parents
- access to managerial and entrepreneurial skills from foreign parents
- ability to dominate the market because of their large market penetration and/or their influence on the purchasing policies of foreign-owned subsidiaries in Canada whose parent firms are served by their parent firms.

As documented in Section II and the six industry study volumes, there is evidence that advantages of these types do occur, particularly in engineering services required for large resource development projects, in the common accounts held by large foreign-owned advertising agencies, in the secure markets of U.S. publisher-owned pulp and paper mills, and in the market power of foreign-owned consumer electronics manufacturers.

* Opinions such as these were expressed by managers in many of the Canadian-controlled and some of the foreign-controlled firms studied and by economists and government officials among others interviewed.

The employees of the companies investigated provided some indication of a general feeling of antipathy toward foreign ownership in its cumulative impacts, although they were less inclined to be critical of the behaviour of individual foreign-owned companies. In particular, in our survey of employee attitudes we found that:

- employees of foreign-controlled companies were as satisfied with their jobs as were employees of Canadian-controlled companies
- employees generally feel that Canadian-controlled companies behave somewhat better than foreign-controlled companies, although those who work for foreign-controlled companies are not as apt to believe that there are significant differences
- employees feel strongly that Canadians and Canadian-controlled companies are more conservative and less likely to take risks than are foreign-controlled companies
- employees generally feel there is too much U.S. investment in Canada now, and that the government should take more action to control foreign ownership.

The heavy concentration of foreign ownership in our larger corporations appears also to impact quite strongly upon community leaders and the public at large, at least in Ontario's smaller urban centres. While the attitude towards specific foreign-owned firms in their community is generally positive, there was a strong negative reaction to the idea of another large foreign-owned firm coming into their community and a feeling that Canada does not now need more foreign capital in order to meet its economic and social requirements.

Foreign Ownership Trends

Perhaps the next most important fact about foreign ownership is that, according to the latest evidence available for the six industries studied, the trend is still toward increasing levels of foreign ownership in several of the industries. As illustrated in Exhibit 34, overleaf, there are growth trends in advertising, electronics, pulp and paper, and possibly among large engineering consultant firms working in the areas of large resource development projects. The evidence collected in the industry studies points, in our view, to a probable continuation of these trends in most cases, unless policies are followed to change them. It seems likely that the stability in levels of foreign ownership in the auto parts industry (already high at 85-95% foreign owned) and metals mining (now at about 40 per cent foreign owned) will also continue. Foreign ownership cannot go much higher in the auto parts industry; while it could grow in mining, the current trends of Canadian investment in mining company stocks, both by individuals and by the Canada Development Corporation may possibly be expected to offset further direct investment by foreigners in Canadian mining.

Behaviour of Individual Companies

Behavioural differences of individual firms within the six industries studied, as documented in the industry studies and Section II of this report, show some differences and many similarities between Canadian- and foreign-controlled firms in each industry. This is illustrated as follows:

EXHIBIT 34

CHARACTERISTICS OF FOREIGN OWNERSHIP BY SELECTED INDUSTRY

Industry	Foreign Ownership in Canada	Industry Structure: Size of Firms	Size of Firms in which Foreign-Owned Firms are more Prominent
Advertising Agencies	Nearly one-third foreign-owned and growth trend.	Fairly even distribution of large, medium, small firms.	Large
Architects and Engineering Consultants	Industry mostly Canadian-owned with foreign ownership concentrated in certain engineering consulting fields; could be increasing.	Fairly even distribution of large, medium, small firms.	Large
Electronics	Almost 50 per cent foreign-owned and growth trend.	Some concentration in large firms, but many small firms.	Large and medium
Auto Parts	85-95 per cent foreign-owned and stable.	Primarily small to medium firms; some large firms.	Large and medium
Mining - Metals	40 per cent foreign-owned and stable.	High concentration among very few large firms.	Large
Pulp and Paper	45 per cent and recent growth trend.	Concentration among several large firms.	Large

Kates, Peat, Marwick & Co.

1. Advertising. Among the differences between foreign- and Canadian-controlled agencies are: larger average size of account and concentration in packaged goods and in the television medium, by foreign-controlled agencies; their possibly somewhat less strong identification with the community; and a greater proportion of their clients being foreign-controlled. Fundamentally, both sets of agencies have similar operating practices; foreign-controlled agencies do not import more advertising material than do their Canadian-controlled counterparts for equivalent clients and products, although they do tend to import more in absolute terms, because of the nature of their clients and products.
2. Engineering Consultants. Foreign-controlled firms are more heavily concentrated in construction management and turnkey operations, and specialize more in certain resource development areas; they appear to operate fairly autonomously with respect to their parent organizations and, with the exception of certain key specializations, undertake most of the engineering work in Canada, while importing more engineering drawings and products than do Canadian-controlled firms.
3. Auto Parts. Foreign-controlled firms rely somewhat more on parent R & D activities, have in some instances little local autonomy, and possibly (but not proven) have to account more for U.S. national interests. In most business respects in domestic and export markets their behaviour differs little from Canadian-controlled firms.
4. Electronics. Canadian- and foreign-controlled firms in the electronics industry tend to show similar behaviour in similar product lines, although even when segregated by the product line, some foreign-owned firms are more likely to import components. Foreign-controlled firms also appear to be somewhat more truncated in terms of R & D, corporate planning, and management autonomy, although this is not always the case.
5. Forest-Based Industries. There is little or no difference between foreign- and Canadian-controlled firms in pollution abatement, labour relations, tendency to import, support for local community, and in research and development; foreign-controlled firms are sometimes publisher-owned, and to this extent tend to have more of a guaranteed market, operating at consistently higher production levels (relative to capacity) than do their Canadian-controlled competitors; tissue manufacturers, which are all foreign-owned, are generally more truncated than other firms in the industry.

6. Mining. There is little or no difference noted between foreign- and Canadian-controlled corporations re pollution abatement, R & D, labour relations, domestic and export markets, imports, local community support; some truncation symptoms in terms of management autonomy, location of fabricating facilities and hiring of technical services outside of Canada were noted among some foreign-controlled firms.

Product and customer differences between Canadian- and foreign-controlled firms in the six industries are summarized in Exhibit 35, opposite.

An overview analysis of the differences between foreign- and Canadian-controlled companies in the six industries leads us to conclude that there are two important distinctions. First, there is a tendency for foreign-controlled firms to buy more components, machinery and/or services from foreign sources and, in some cases, to be less autonomous in terms of corporate planning, key investment decisions, research and development, critical labour negotiation decisions, and the hiring of senior management. These differences reflect head office ties. A relevant difference is the generally greater degree of forward integration outside Canada among foreign-controlled firms. This is particularly true with respect to certain metals fabrication in the mining industry.

The second important difference is the tendency of foreign-controlled firms in four of the six industries studied to concentrate in certain product lines, generally involving high technology and/or high unit value, often to the virtual exclusion of Canadian-controlled firms from these fields. For instance, foreign-controlled advertising agencies concentrate in the packaged goods area, foreign-controlled

EXHIBIT 35

PRODUCT AND CUSTOMER DIFFERENCES
BETWEEN CANADIAN- AND FOREIGN-CONTROLLED FIRMS

INDUSTRY	CANADIAN-CONTROLLED	FOREIGN-CONTROLLED
Advertising	Small and large accounts, Canadian and government clients.	Tendency to have larger, foreign-owned clients, emphasis on package goods, T.V. medium.
Architects and Engineering Consultants	Civil, mechanical, power emphasis; routine and small- to medium-sized projects.	Engineering construction; turnkey, large scale projects; specialized expertise and concentration in refineries, resources, conceptual design of large, high-rise office buildings.
Auto Parts	Tend to be in lower value and lower technology areas.	Tend to be in higher value, higher technology areas.
Electronics	Concentration in telephone equipment (Northern Electric)	Concentration in home entertainment.
Mining	Concentration in steel; more complete integration from the mining of ore to the production of manufactured goods in Canada.	Greater tendency for fabricating facilities to be located abroad.
Pulp and Paper	Open market sales; markets subject to significant fluctuation.	Guaranteed, more stable markets for those firms owned by publishers or tissue manufacturers.

engineering consultants in large-scale resource development, foreign-controlled auto parts firms in high value product areas, and foreign-controlled electronics firms in high technology areas (with the exception of communications). Some other industries not studied are so heavily dominated by foreign-controlled corporations that there are few, if any, Canadian-controlled companies that can be compared with them. Examples include auto manufacturers, petroleum companies and computer manufacturers. Foreign-controlled companies, therefore, are involved in significantly different product areas, markets, and even businesses to some extent, with Canadian-controlled firms therefore not significantly involved in many important sectors of our economy.

Some of the differences noted above are significant, in our opinion, and the Committee will probably consider the possibility of government action, or at least monitoring, regarding such development. It is also clear, however, that the differences in existing behaviour are not particularly startling, when viewed at the level of the individual company. These findings, again, were generally corroborated by the public and employee attitude surveys which indicated equal levels of job satisfaction among employees of Canadian- and foreign-controlled firms and the feeling among those living in small urban centres that both types of firms are equally good corporate citizens.

It was found in the industry studies, and supported by interviews with leaders in the fields of labour, banking, government, accounting, etc., that foreign-owned firms have much to offer Canada in terms

of management efficiency and effectiveness, production efficiency, product innovation (usually based upon initiatives from the parent company), cash liquidity and good credit ratings, support for community projects, total wages paid, and working environments provided to employees. There were found to be more non-Canadians in senior management positions in foreign-controlled firms, but there was little evidence that the upward mobility of bright young Canadians is severely curtailed in these firms, although they might have to leave Canada to attain the highest positions.

In short, the "management group" applies its best efforts regardless of who owns the most stock in the corporation, and makes the most of any advantages, such as market power, financial resources, management strengths and ability to import technological developments, which may flow from foreign ownership.

Impact of Foreign Ownership on Industry Structure

The analysis of foreign- and Canadian-controlled companies raised certain questions about the general impact of foreign ownership on the structure of each industry studied. A fuller examination of this impact would require a more thorough analysis of the historical development of each industry. Nevertheless, some comments are made based on our study of each industry; these are discussed briefly below.

In advertising, the foreign-controlled agencies have contributed to a more highly competitive situation in the agency business, have improved advertising techniques, and have possibly led to a higher

salary structure for qualified individuals in the industry. At the same time, foreign-controlled agencies heavily dominate the accounts of large foreign-controlled advertisers, and their share of the total advertising agency business in Canada is steadily increasing. One could speculate that, if foreign-controlled agencies had been barred from entry into Canada, there might have developed one or two Canadian-controlled agencies of sufficient size and scope to branch out internationally. (As far as the advertising itself is concerned, there seems little doubt that barring U.S.-controlled agencies would not have stopped American advertising itself in Canada).

In the engineering consulting industry, Canada would probably be in a better position today if the Canadian engineering community had largely developed a wider range of technical and management capabilities as a result of building more large scale projects. As shown in the pulp and paper industry, expertise developed at home would be today more exportable, and might have had the additional side benefit of assisting us to develop and process our own resources in Canada.

The auto parts companies have largely had to follow the lead of the foreign-controlled auto manufacturers, and a hindsight speculation would have to include whether the auto parts industry would be in a better position if a "Canadian car" had been developed here. As it is, while the foreign-controlled firms in Canada do some R & D work in Canada, most of the technological innovation, as well as marketing services, of the North American auto parts industry occurs in the United States.

In electronics, Canada is competitive internationally in a fairly narrow range of electronics products. Most of the innovation is produced outside the country and imported through the foreign-controlled firms. These foreign-controlled firms do not as a rule establish subsidiary operations abroad from the Canadian base, and the increasing integration of the multi-national companies will possibly restrict even further the range of products to be designed in Canada. As well, the presence of foreign-controlled firms has hampered the scale-dependent part of the industry, namely consumer electronics, by contributing to a severe fragmentation of the industry.

The foreign ownership of many pulp and paper companies, as well as the dependence on U.S. markets by all companies, have probably both contributed to the continental attitude of pulp and paper executives in that industry. As a result, the industry may be vulnerable to more foreign ownership in good times (through increased ownership of pulp and paper companies to secure fibre supplies) or a retrenchment south of the border in bad times. Another manifestation of a continental approach is the tendency for Canadian-controlled pulp and paper companies to expand into the U.S., which may lead to a shift of jobs to the United States.

Finally, in the mining industry, the impact of foreign-owned and -controlled mining companies may have contributed to the position of a weak mine machinery industry, as well as less fabrication of metals in Canada and some diversion of engineering consulting work to foreign-controlled firms.

Scenarios of what might have been if there had been less foreign ownership in any given industry could be portrayed in a positive or negative light. For instance, if we had not had foreign investment, it could be argued that Canada simply would not have obtained the management, technology, and capital that were needed for development. As suggested above, however, the distortion in the structure of each industry in view of the existence of foreign-controlled firms might lead to the conclusion that Canada at this time might be better off with less foreign control. How great a price we would have had to pay in terms of slower economic development, if any, cannot of course be answered through our study.

Potential Behavioural Differences

Following the identification of existing behavioural differences and similarities between foreign- and Canadian-controlled firms, during our discussions with industry executives, we focussed on the possibility of potential behavioural differences between foreign- and Canadian-controlled firms in the six industries. Such potential differences might result from a continuation of existing trends and/or unilateral actions by parent companies or other countries which could affect the activities of foreign-controlled subsidiaries in Canada. Some of the potential behavioural impacts related to foreign ownership identified by those interviewed were as follows:

- . Among advertising agencies, it was argued by some that further inroads by foreign-controlled agencies may have subtle effects on increasing the continental

nature of advertising to the possible detriment of a more distinctive Canadian culture. (It is recognized that the growth of continental advertisers is equally or more important than the effects of continued growth of foreign-controlled agencies; the two trends appear to be strongly interrelated).

- . Continued dominance of large, specialized projects, such as resources development, by foreign-controlled engineering consultants could increase Canada's dependence on outside expertise and consequently reduce our overall resources management capability.
- . In the auto parts industry, it was felt to be possible that future compliance with "national interests" may negatively influence American-controlled firms' future investment in production facilities in Canada and purchases from suppliers located in Canada; this might happen if the U.S. government, directly or indirectly, applied pressure on the big four auto manufacturers to revert their purchasing to U.S. plants, thus influencing parts plant investment in Canada.
- . In the electronics industry, it was postulated that there might be a lessening of investment in Canada, a greater concentration of R & D opportunities located in the parent's organization and fewer product lines manufactured in Canada. The combined effect of this pattern of behaviour among foreign-controlled firms might be to curtail growth of the total electronics industry in this country.
- . In the forest-based industries, a suggested possible result of future boom periods could be more U.S. takeovers to assure pulp and paper supplies, while in an extended period of weak demand the possibility would exist that there would be more shutdowns in Canada of companies which have alternative production facilities in the United States.
- . In the mining industry it was suggested that future exploration activities and fabricating facilities might occur more outside the country, particularly among foreign-controlled firms, which tend to carry out less fabricating in Canada at present than do Canadian-controlled firms.

These and related concerns were voiced mainly by executives of Canadian-controlled firms and others in the community at large. While they are largely hypothetical, it seems clear from our findings of existing behaviour and trends in the six industries that such developments would be more likely to occur if there were more rather than less foreign ownership in these industries. Whether some or all of them do occur will depend not only on the degree of foreign ownership but also on international trade developments and the related activities of Canada and other relevant countries.

CUMULATIVE IMPACT OF FOREIGN OWNERSHIP

In the preceding sections we discussed the behavioural aspects of corporations, actual and potential, as well as raising questions about foreign ownership on an industry basis. Now addressed is the broader impact that seems to have been attributable to foreign ownership, referred to as the cumulative impact.

If, as argued below, there is an undesirable cumulative effect of foreign ownership, this is in contrast to the often quite acceptable behaviour and economic performance of most foreign-controlled corporations at the individual firm level, as discussed above. If the negative cumulative impact is accepted as fact, any review procedures established by government, the Foreign Investment Review Act, for example, should consider "cumulative impact" criteria as well as the net benefit of each case in isolation.

It would appear that some of the potentially undesirable aspects of foreign ownership stem from the overall effects of a series of separate decisions rather than from the individual corporate actions themselves. When examined individually, the benefits of a proposed corporate action under review may compare favourable with apparent costs. However, the cumulative impact of a series of corporate actions may tip the balance on the negative side.

Some of the cumulative aspects of foreign ownership are discussed below.

Market Fragmentation
and Production Costs

Many of those interviewed, particularly including the academic economists, government officials and some members of management, noted that manufacturing concerns in some industries in Canada tend to have higher unit costs of production than do their counterparts in the United States. This was attributed in some cases to the rather large number of small companies serving our domestic market, the wide product line of many such companies, and the resulting short production runs which tend to result in higher unit costs in some industries. It would be misleading, in our view, to select foreign ownership as the only cause of this situation; it seems likely that it results as well from our tariff, competition and taxation policies which, however, have encouraged foreign investors to aggravate the problem.

The large number of companies and product lines relative to the size of the Canadian market is illustrated in our study of the

consumer electronics industry and in the service sector by the engineering consulting industry. This fragmentation appears to have resulted in some large measure from Canadian tariff, competition and taxation policies, which have encouraged foreigners to buy out or set up "miniature replica" subsidiaries in Canada; such companies in the secondary industry sector manufacture all or most of the product lines produced by the parent but for a smaller share of a much smaller market. In the service area, the Canadian branch can act as the pipeline to skills and technical capability in the home office. The foreign-owned subsidiary probably has lower unit costs than a Canadian-owned competitor operating at the same volume of output, because it can share certain research, development, licensing, and production/marketing start-up costs with its parent spread over a much larger combined volume of production. Further research is needed in this area to document the extent to which this is true in various industries, but our discussions with executives in the industries studied tended to confirm this phenomenon.

It should also be pointed out here that other industries, such as the electronics communications industry, do not exhibit to the same extent this unit cost advantage at high production levels. These are industries in which the high content of highly skilled labour, and possibly the need for "custom" treatment of many or most units produced, do not favour assembly line techniques. The absence of these volume-related disadvantages suggests that such industries could flourish in Canada under domestic ownership, if encouraged by appropriate policies.

Industrial Structure
and Trade

As illustrated by the automobile industry, adoption of conditional free trade between Canada and the United States can, in certain instances, overcome the problems of short production runs and high unit costs in Canada. The price paid for this, however, may be (as noted in the auto parts industry) virtually exclusive reliance on the North American market and a corresponding lack of initiative on the part of companies in Canada to seek export markets abroad.* It can be strongly argued that Canada, as one of the world's leading trading nations must in its own self-interest establish and expand its exports to a wide variety of markets throughout the world in order to reduce its dependence on any one market area and its vulnerability to possible massive reductions in its access to that market.

The idea of similar conditional free trade arrangements with the U.S., or other continental economic policies, should be examined with great care. As shown in the auto parts industry, the unequal nature of the relationship tends to increase the economic dependence of the junior partner. The industry's head office functions of decision-making, corporate planning, product innovation and development, labour relations, and marketing gravitate to the senior partner, for which Canada might be paid in the short term by jobs. However, it is doubtful that even the latter would be obtainable in future arrangements.

* Although we were pleased to note the recent initiative of a group of auto parts manufacturers located in southern Ontario, with government aid, to penetrate the Japanese market; Globe and Mail, November 10, 1973, page B2.

It is not intended here to present an argument against free trade with the U.S., for if properly managed, such policies might bring greater efficiencies to Canadian industry. It is to be emphasized that fragmentation, in part a product of foreign ownership, should be faced with specific domestic policies as well as through bilateral trading arrangements.

The performance of Canada's manufacturing industry, in terms of trade balance in end products, is illustrated in Exhibit 36(a) opposite. It can be seen that our trade balance deficit in end products has increased from about \$2.6 billion in 1964 to \$3.6 billion in 1971. We have financed this large negative trade balance by increasingly positive trade balances in crude and fabricated materials; that is, by selling our renewable and non-renewable resources in a crude or partly manufactured form. For purposes of comparison, Exhibit 36(b) shows the positive trend in our trade balance in autos and auto parts over the same period (from a deficit of \$716 million in 1964 to a surplus of \$192 million in 1971) resulting from the Auto Pact, and the more significantly negative trend in our end products trade balance if this Auto Pact impact is subtracted out. More recent figures suggest that we can expect negative trends also in auto and auto parts, although this remains to be seen.

There are undoubtedly many reasons for Canada's large trade deficit in manufactured products, including our abundance of raw materials, our proximity to the large markets and capital wealth of the U.S. and the tariff, competition and tax policies which we have followed. Based on the evidence of this and other studies regarding behavioural differences

CANADA'S BALANCE OF TRADE IN CRUDE, FABRICATED AND END PRODUCTS 1964 - 1971

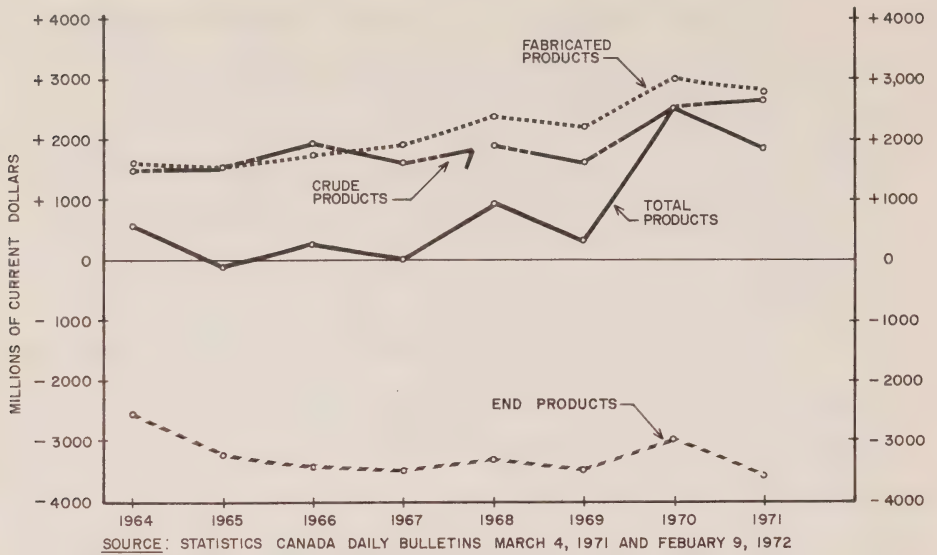
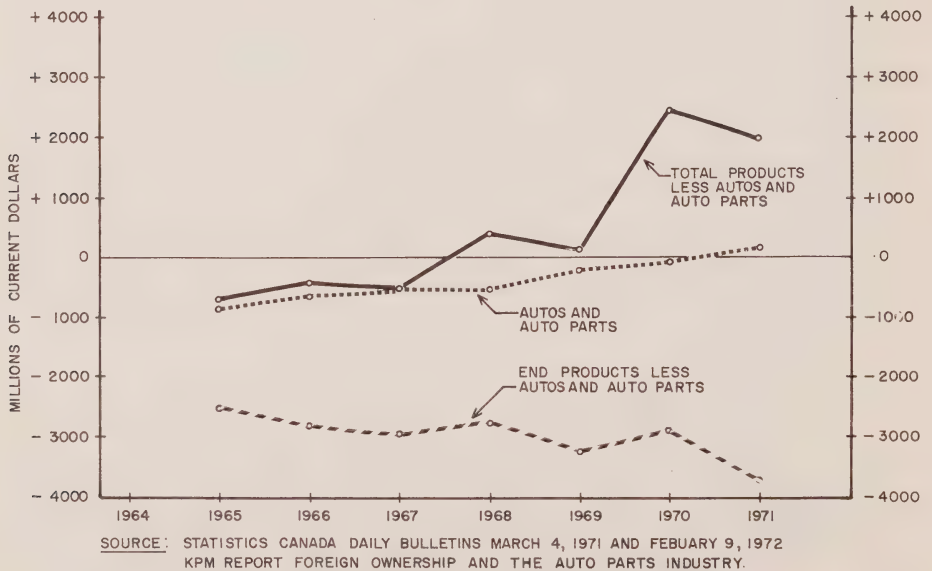


EXHIBIT 36(B)

CANADA'S BALANCE OF TRADE IN END PRODUCTS LESS AUTOS AND AUTO PARTS 1964 - 1971



between foreign- and Canadian-owned firms in this country, however, we are led to the conclusion that the high level of foreign ownership among Canada's largest and most technologically advanced corporations also contributes significantly to this situation. This conclusion is based on the observed behavioural differences in importing, exporting, innovative activities, linkages with other enterprises in Canada and abroad, and management autonomy between foreign- and Canadian-owned firms, and on the related findings of this and other studies regarding cumulative impacts on behaviour and attitudes in Canada. The continuing stream of foreign takeovers and the lack of "demand pull" from large firms to create markets for smaller firms in Canada (because the large foreign-owned firms tend to look to their parent country for many materials, components and services, particularly in innovative fields) constantly drains our economy of its industrial momentum in terms of local initiatives and entrepreneurial experience. In our view, these factors contribute significantly to the relatively slow growth and lack of depth and diversity of our manufacturing industry which produce the type of trade performance illustrated in Exhibit 36.

It would certainly be unrealistic to expect that Canada should have large positive trade balances in all three types of products (crude, fabricated, end) at all times. This would be unfair to our trading partners, would put embarrassingly strong upward pressures on the value of our dollar, and could not therefore be maintained for long. Nevertheless, we may well ask ourselves whether the state of affairs illustrated in Exhibit 36 is most likely to serve Canada's short- and

long-term interests best, or whether a smaller surplus in crude and fabricated products and a smaller deficit in end products would not better husband our non-renewable resources while providing more economic and social opportunities for Canadians in Canada. If the people and governments in Canada think that the latter is true, they are obliged, in our view, to examine carefully the negative impacts of foreign ownership on our industrial complex and to devise policies which will reduce these impacts.

National Self-
Confidence and Initiative

There are, in addition, more subtle impacts which our study has led us to believe result to some considerable extent from the high level of foreign ownership in Canada, particularly of our larger corporations. Probably the most important of these is the impact on national pride and self confidence, both on the part of management and the public.

Management interviews and the public attitude surveys clearly demonstrated a feeling that large, foreign-controlled firms dominate much of our economy and society, that Canadian-owned industries are sometimes "second best" in comparison to them, that entrepreneurial initiatives and technical innovation by Canadians are often not worth the risk because of the substantial market power of large foreign-owned firms, and that our ability to achieve certain national goals may be impaired by their overwhelming existence in Canada.

One example in the last area is the limit, which may result in part from foreign ownership in the opinion of many interviewees, on our ability to time the development of major natural resources, allocate them among domestic and foreign users, and use them as a basis for creating high skill jobs in Canada, in the best interests of all Canadians. Another example given by some of those interviewed is our restricted ability to develop innovative products which, by preference or policy, we may require in Canada (such as housing, vehicles and urban designs suited to wide temperature extremes and the efficient use of fuel). This was seen to be more difficult when much product innovation initiated by large corporations comes from ideas generated in other countries.

Whether or not these opinions are borne out by the facts in a significant number of cases, the fact that a substantial number of Canadians appear to hold such views may be expected to have an impact on their actions and therefore on the country's development as well as its mood.

Continental Attitude

It was found also that in those industries with a high degree of foreign ownership and/or a large existing dependence upon the U.S. market (particularly auto parts and forest-based industries in this study), management in many cases showed little apparent interest in seeking more diverse export markets. It can be argued that other export markets are not needed since the U.S. is close, we have natural

advantages in supplying this market, and they will always continue to buy from us. As discussed in both the Forest-Based Industries and Auto Parts Industry studies, this latter assumption will not necessarily always hold, and good commercial strategy would seem to suggest that Canada should seek a variety of export markets, while continuing to maintain, and expand if possible, its trade with the United States. As discussed in Section II of this report and the industry study reports, attempts to achieve this are complicated, and may in some cases be negated, by a high level of foreign ownership of firms operating in this country and/or by the market dominance of foreign-based end-product manufacturers such as the "big four" automobile manufacturers.

Effects on Innovation and
Expansion of Smaller Firms

Difficulty experienced by smaller Canadian companies in obtaining funds for expansion or to undertake innovative activities has also been discussed, as has the impact on firms providing professional services and industrial components of purchasing policies which tend to favour foreign suppliers, particularly in high technology areas. Both of these effects may be expected to have an inhibiting influence on the birth and development of small, innovative firms in Canada which may grow into the large, successful corporations of tomorrow. The greater liquidity of foreign firms and the fact that a successful young Canadian-owned firm may be worth more to them than to potential Canadian buyers because of its complementary value to their continental or world-wide network of firms, has also been a contributing factor to the large number of foreign takeovers of profitable, medium-sized Canadian firms.

Public Concern

As mentioned earlier in this section, the public attitude surveys showed strong evidence that the "man in the street", in Ontario's smaller urban centres at least, is uneasy about the implications of the current high levels and apparently continuing growth trends of foreign ownership in Canada. The responses to several questions in this subject area indicated the feeling that "enough is enough" and that government action is desirable to maintain Canadian control over our economy and society.

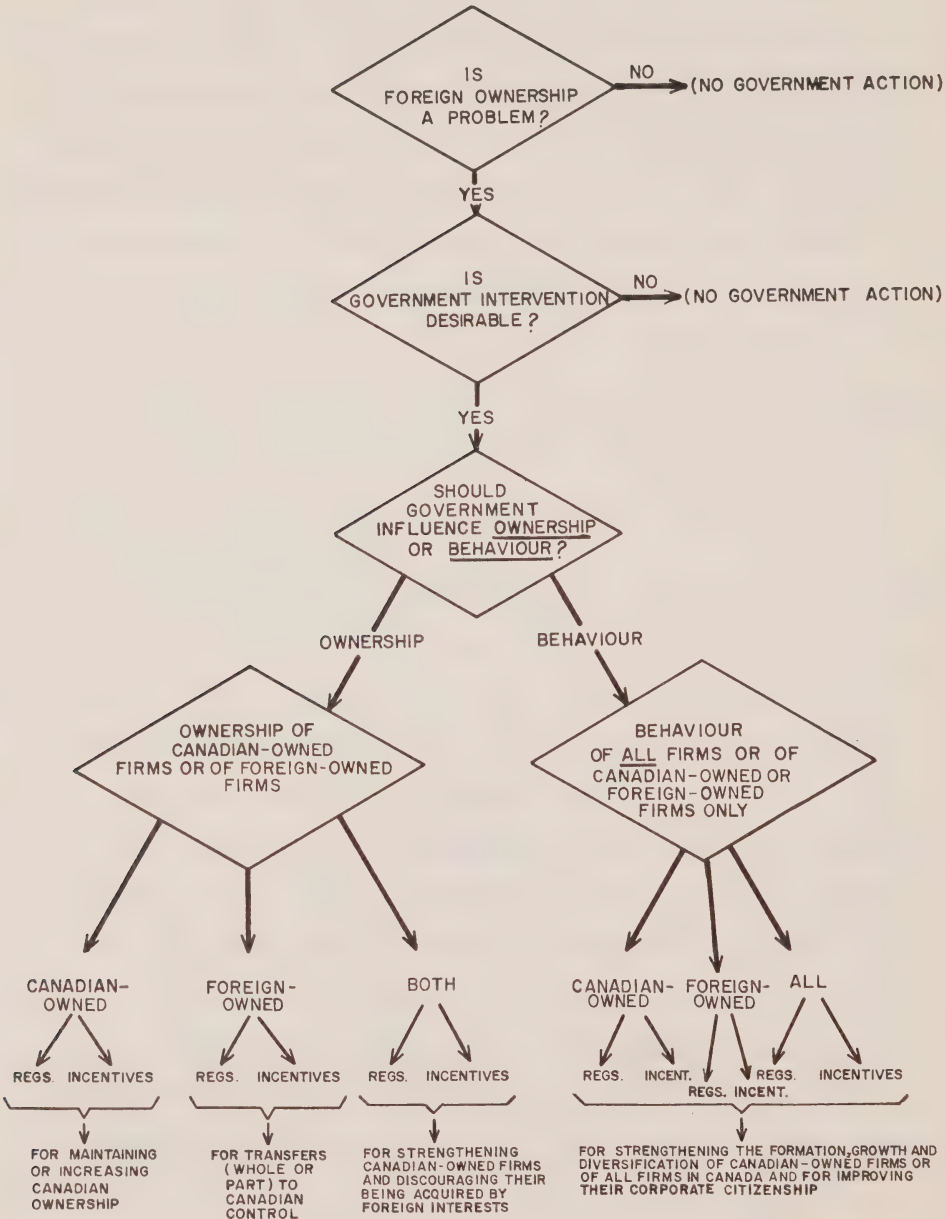
GOVERNMENT POLICY CONSIDERATIONS

Is Action Needed?

This difficult question will be addressed on a continuing basis by our Federal and Provincial Governments based on public attitudes, economic facts and theories, and related findings from a variety of sources including, we trust, this study. Specific policy recommendations are not the purpose of this study, but we offer some general commentary within the context of Exhibit 5, discussed earlier in Section I, which is reproduced, opposite. In answer to the first question - is foreign ownership a problem - based upon this study we would respond as follows: at the individual corporate level, not particularly, but with some exceptions; at the cumulative level, yes, because it affects our national self-confidence, the ability of Canadian-controlled firms to grow, diversify or even exist as such in some cases, our ability to build a broadly based, innovative industrial

EXHIBIT 5

GOVERNMENT INTERVENTION RE FOREIGN OWNERSHIP: SIMPLIFIED LOGIC DIAGRAM



complex and our ability to achieve other goals which may be important to us as a nation. Among the latter, could be included the general goal of more self-reliance, whether it be in energy production, net trade in manufactured products, or ability to entertain ourselves.

In answer to the second question - is government intervention desirable - our response is that it is essential based on the above findings and if we wish to ensure Canada's continuing development to its maximum potential as a distinct and creative entity in the world. It should, of course, be recognized in this regard that government involvement in areas with substantial impact on foreign investment and control in the Canadian economy already exists, as discussed in Section I of this report and the six industry reports. We are suggesting, however, that government consider changing the nature and scale of its involvement in recognition of some of the problems highlighted in this and other studies.

What Type of Action?

In answer to the third question - should government influence ownership or behaviour - we would respond that both types of intervention should be considered. For example, some of the practices of corporations, many of them foreign-controlled, can be influenced without changing the corporate ownership. This type of government intervention would include discouraging of purchasing goods and services from abroad when high quality Canadian sources are available or could be developed at an acceptable price premium, increasing innovative activity in Canada, and locating

fabricating or processing facilities here instead of abroad. Government purchasing itself can be used to influence R & D, product development and, through them, our trade balance in manufactured goods. The basic, cumulative problem referred to above, however, particularly in terms of foreign ownership of our larger corporations, can really only be tackled in terms of ownership.

Here we come up against some important facts in terms of Canada today. We are a society which remains substantially based on the philosophy of private enterprise, private property and, as part of this, a high level of international trade organized by the private sector. Any unilateral actions by governments which threaten long-term investments made or planned by foreigners - and also by Canadians - must have an impact upon our status as a member of the free world's trading community which could be economically negative.

On the other hand, we have every right to change the rules such that Canadian-controlled firms have at least equal opportunities, relative to foreign-controlled firms, in establishing themselves, growing and diversifying in Canada and abroad. Some of the relevant policy levers available to senior governments in Canada are shown in Exhibit 37, overleaf. Other countries, such as Australia, Japan, France, and even the U.S. have taken particularly strong stands against the control of industries by foreign-owned firms.

In certain cases, through instruments such as the Canada Development Corporation, it may be feasible to purchase controlling

EXHIBIT 37
POLICY JURISDICTIONS*

GOVERNMENT LEVERS	FEDERAL	PROVINCIAL
I. <u>CORPORATE REGULATION</u>	Re any company doing business in one or more province and all banks	Re companies doing business within the province (thus banks excluded)
1. Incorporation, including provisions re ownership, control, management, direction, capital structure, powers, purchasing policy	X	X
2. Licencing of corporations incorporated in other jurisdictions	X	X
3. Mergers, acquisitions, take-overs	X	X
4. Bankruptcy and insolvency	X	
5. Winding up of solvent corporations	X	X
II. <u>REGULATION OF TRADE & COMMERCE</u>	Re foreign or inter-provincial flow of goods and services	Re intra-provincial flow of goods and services
1. Competition	X	X
2. Prices	X	X
3. Exports/imports	X	X
III. <u>FINANCIAL REGULATION</u>		
1. Tariffs	X	
2. Taxes (e.g. for purposes of export incentives)	X	X
3. Financial institutions	X	X
4. Securities regulation	X	X
IV. <u>GRANTS FOR R & D</u>	X	X
V. <u>GOVERNMENT PURCHASING</u>	X	X
VI. <u>SOCIO-ECONOMIC CONTROLS</u>		
1. Consumer protection	X	X
2. Pollution controls	X	X
3. Labour regulation	X	X

* It should be recognized that the degree and scope of authority falling to each level of government differs significantly in the various policy areas shown, in accordance with constitutional prerogatives.

interests in large corporations with dominant positions in Canada's economy. If done on a selective basis this could have a significant impact on the current dominant position of foreign-controlled firms among our large corporations. The new Foreign Investment Review Act may have some long-term effect if it limits takeovers of promising Canadian firms, and restricts the expansion of foreign-controlled enterprises into unrelated areas of activity. Such actions would provide more opportunity for Canadian-controlled firms to expand and diversify while remaining Canadian. Based upon the findings of the six industry studies, and specific studies of other industries which may be carried out, it may be possible to develop government policies which will equalize the opportunities for growth and development such that Canadian-controlled corporations will be able to hold their own and expand more effectively both here and abroad; policy options for consideration based on the industry study findings are summarized in Section II above.

Canada has been an internationalist country, although perhaps too colonial throughout our history; many Canadians, including the authors of this report, would hope that we will, on a more self-reliant basis, build upon existing international ties in our own self-interest and to fulfil our rather unique position in the world community. We feel, however, that our stance regarding foreign ownership should be one of enlightened self-interest which accepts foreign investment and initiatives, but on our own terms; we feel that these terms can probably

be made profitable enough to those foreign businessmen who offer something that Canada needs, while moving us away from the current, high level of foreign control, particularly of our large and most influential corporations.

Natural Resources
as a Bargaining Lever

As was pointed out to us many times during the study, one obvious area in which Canada has significant comparative advantages relative to most industrialized countries is that of natural resources. We have the resources to meet our own energy requirements and should be able to do so into the foreseeable future based on tar-sands oil and nuclear power; we have substantial reserves of most mineral resources; and we are able to export enormous quantities of renewable resources in the forms of food and fibre. Indeed, it is probably this abundance of resources, plus the nearness of the United States, which has resulted in the uniquely high level of foreign ownership in Canada among industrialized countries (1) (2) (3); it has been easier to sell our natural resources and import technology and manufactured products from other countries than to build a domestically-controlled industrial complex which matches in size, range, and self-reliance the scope of our domestic market and resource base.

If the Federal and Provincial Governments in Canada wish to move us more in the latter direction, Canada's resource base, coupled with the growing shortages of energy and mineral resources being experienced by most industrialized countries, provides us with a significant bargaining lever which can be used in several ways:

- to negotiate tariff changes which are more favourable to the entry of our manufactured products into countries using our natural resources
- to influence the behaviour of firms developing and purchasing our resources such that both forward and backward integration is carried out in this country, leading to greater value added in Canada, more use of Canadian suppliers, and a more broadly-based, innovative, responsive and remunerative industrial system in Canada
- to generate, in those carefully selected cases where resources are exported in unprocessed or semi-processed form, revenues which will be used both to finance the development of a broader resource and industrial base and to purchase control, on a selective basis, of a number of large, key corporations which are now foreign-controlled.

Examples of the types of policy changes and forward/backward integration which could help build a more broadly-based industrial complex in which Canadian-controlled firms have equal competitive opportunities are given in some cases in the six industry reports of this study.

Key Firms

More detailed evaluation of such policy initiatives would be desirable, and it would be necessary also to develop criteria for selecting the key firms for which Canadian control may be desirable, as referred to above. Based on the findings of this study, key firms for which Canadian control might produce most benefits would tend to have characteristics such as the following:

- major developers or users of Canadian natural resources which have shown little or no tendency to integrate forward into further processing or manufacturing in Canada

- major manufacturers of end-products which rely largely on foreign sources for technological innovation to improve their products and processes and tend to draw upon foreign suppliers of materials, components and services for such purposes
- major manufacturers of components or end-products which have export potential that is not being actively developed.

The firms would, in turn, be drawn from industries which tend to have characteristics similar to those listed above, are strategically important in Canada's industrial complex, and in which Canada has comparative advantages which would produce maximum benefits from Canadian control. As pointed out in the Electronics Industry report, the fact that Northern Electric became Canadian-controlled in 1956 and has since massively increased its R & D, exports, and supplier linkages in Canada, is a telling example of the impact such key firms can have on their employees and our economy at large.

It should be emphasized here that the intent of this process would not be to penalize foreign-controlled firms as such, but rather to provide an environment in which the drift to further foreign control of our economy would be halted and Canadian-controlled firms would be given equal opportunities to grow and develop so that, over time, a larger proportion of the economy would be Canadian-controlled.

It should also be emphasized that purchasing of Canadian control, while possibly requiring government initiative for immediate results, does not necessarily imply public ownership of the selected key firms.

Shares acquired by a government agency, such as the Canada Development Corporation, could in turn be sold to Canadian citizens and corporations although in some cases, particularly those of firms involved in non-renewable natural resources, continuing public ownership might be more appropriate.

These are a number of possible approaches which could be followed in achieving more widespread ownership in Canada of such firms, including share ownership by the company's employees*; the most appropriate approach would depend very much on the nature of the industry and company in each case.

Government Discretion
Versus a Clear-Cut Framework

It is clear from our study and others that the "management group" is quite aware of public opinion. It is, for example, very sensitive to the issues of economic and cultural nationalism both in Canada and other countries. It is therefore no surprise that many foreign-controlled corporations rate very well in behavioural terms relative to their Canadian-controlled counterparts in areas such as community involvement, pollution abatement and husbandry of natural resources; behavioural differences in other areas, however, particularly in terms of forward and backward linkages in Canada and other forms of truncation, appear to contribute to the cumulative industrial problems referred to above.

* See, for example, article in the New York Times of Sunday, January 6, 1974 on U.S. legislation providing for eventual employee ownership of the Consolidated Rail Corporation which is being formed to restructure the railroad industry in the U.S. Northeast.

Many of the businessmen interviewed stressed that, in fairness, government should provide a clear-cut framework within which they can operate, rather than retaining a large amount of discretionary authority which may endanger long-range investments after they have been made. It seems clear to us that government must retain discretionary authority - otherwise it would be unable to adapt quickly to exceptional situations - but that business should be provided with a reasonably stable environment within which to operate. Discretionary authority is probably warranted in reviewing specific foreign investment initiatives of the types contemplated in the Foreign Investment Review Act and subsequent additions as envisaged, although it is to be hoped that the government has an effective means of measuring benefits and that consistent guidelines to be used for this purpose will be developed shortly. Where possible, however, we suggest that government should attempt to use more predictable policy levers, such as taxation, tariffs, competition legislation, and related regulations or incentives, to achieve, over a period of years, a more appropriate level of Canadian ownership in our economy, particularly of our larger corporations.

For example, there has been recent publicity* regarding the findings of some Canadian-owned firms that it is cheaper to expand their operations by building new plants in the United States than new facilities in Canada. The reasons given in one case were higher corporate and sales taxes in Canada and higher costs for components and materials obtained in Canada, which more than offset any Canadian advantages in

* One such case was described in the Financial Post, November 10, 1973, page 13.

land and plant costs. The proposal was made that tariffs should be reduced for certain components and products, tax reductions should be allowed based on export performance, and government "insurance" should be made available to protect firms against unilateral protectionist actions of foreign countries.

Whether or not these particular proposals are the most appropriate actions to be taken, it is clear that there are a number of actions which government can take to change the framework within which businesses operate in Canada and thereby encourage the formation, growth and diversification of Canadian-controlled firms in all sectors of our economy. This, in our view, will be the most effective way in the present political-economic system to create a manufacturing, services and resource based industrial complex in Canada which matches in size, diversity and self-reliance the skills, natural advantages and national aspirations of our country.

APPENDIX A

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MAJOR REFERENCES CITED

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